



DOING BUSINESS IN AZERBAIJAN
AZERBAIJAN COUNTRY COMMERCIAL GUIDE
FY2002

Prepared by the U.S. Embassy Commercial Service
Baku, Azerbaijan

The U.S. Commercial Service – Your Global Business Partner



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**AZERBAIJAN COUNTRY COMMERCIAL GUIDE
FISCAL YEAR 2002**

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Foreword

This Country Commercial Guide (CCG) presents a comprehensive look at Azerbaijan's commercial environment using political, economic, commercial and market analyses. The CCGs were established by recommendation of the Trade Promotion Coordinating Committee (TPCC), a multi-agency U.S. government task force, to consolidate various reporting documents prepared for the American business community. CCGs are prepared annually at U.S. Embassies through the combined efforts of several U.S. government agencies.

CHAPTER 1: EXECUTIVE SUMMARY

Azerbaijan, a newly independent country with vast potential energy resources, presents opportunities and challenges for U.S. business. Slightly smaller than the state of Maine, Azerbaijan is a republic with a presidential form of government headed by Heydar Aliyev, a former Azerbaijani and Soviet Communist Party leader and the country's strongest and most visible political leader. Azerbaijan is at the geographical crossroads of the Middle East, Europe and Asia – an element that is reflected in its political, economic, and commercial development.

Azerbaijan's macroeconomic picture has improved in the past year as a result of responsible fiscal and monetary management and favorable global economic trends. GDP grew by about 11 percent in 2000. The Azerbaijani currency, the manat, is stable. Inflation is under two percent. The basis for a transparent and stabilizing Oil Fund has been created. The government of Azerbaijan (GOAJ) has adopted a single, comprehensive tax code. In July 2001 the country won a BB minus long-term credit rating, an improvement over the 2000 rating. The U.S.-Azerbaijan bilateral trade treaty, ratified in April 1995, is in effect. A U.S.-Azerbaijan bilateral investment treaty, signed in August 1997, went into effect in August 2001. In July 2001, the IMF approved a three-year \$100 million Poverty Reduction and Growth Facility loan to support the government's economic reform efforts. Despite these macroeconomic successes, Azerbaijan remains a difficult place to do business given arbitrary tax and customs administration, a weak court system, monopolistic regulation of the market, and corruption.

President Heydar Aliyev dominates the country's politics. Following a period of instability that threatened civil war, President Aliyev came to power in 1993 and was returned to office in a controversial October 1998 election. President Aliyev and his supporters dominate the multiparty, 125-member parliament. Parliamentary elections held in November 2000 showed some progress over previous elections in that political pluralism was advanced. However, there were numerous serious flaws, and the elections did not meet international

standards. In August 2001, President Aliyev announced his intention to run in the next scheduled presidential election in 2003. Concerns about the health of the 78-year old ruler, however, continue.

Since gaining independence in 1991, Azerbaijan has faced a complex set of nation-building issues including a war with Armenia, tense relations with its neighbors, management of world-class energy reserves, a dramatic economic downturn following the collapse of the USSR, and slow market reform. The smoldering conflict with Armenia since a 1994 cease-fire presents a major challenge to Azerbaijan's consolidation as an independent state. Armenian forces of the self-styled "Republic of Nagorno-Karabakh" (which is not recognized by any government) occupy about 16 percent of Azerbaijan's territory. Some 800,000 Azeri refugees and internally displaced persons (IDPs) cannot return to their homes in occupied lands and put an enormous political and economic burden on the Azeri government. Beginning in 1999 and under the auspices of the OSCE Minsk Group co-chair (U.S., Russia and France), the presidents of Armenia and Azerbaijan held a series of direct meetings to discuss a compromise resolution. In April 2001, the United States hosted further talks that brightened the outlook for a lasting settlement, but peace has yet to be achieved.

Azerbaijan has enormous economic potential, particularly in the energy sector. Industry experts suggest that Caspian reserves as a whole may approach those of the North Sea. As a result, virtually every major oil company in the world has an interest in Azerbaijan. To help in developing this potential, the GOAJ has granted a number of Production Sharing Agreements (PSAs) to consortia comprised of the oil majors. The first PSA was granted to the Azerbaijan International Operating Company (AIOC) in 1994 to develop the offshore Azeri-Chirag-Guneshli field. Since then, the Azerbaijan parliament has ratified a total of 22 PSAs (three of which have since dissolved/terminated). These PSAs provide a solid foundation for foreign investment in oil and gas-related sectors of the economy. The delimitation of the Caspian seabed and resources remains a contentious issue that could affect development of the region's considerable energy resources, as seen in a July 2001 incident when an Iranian warship forced a British Petroleum (BP) exploration ship from disputed waters.

The development of pipelines will be key to Azerbaijan's ability to export oil and gas. AIOC has two pipelines for its initial oil production, and companies are making plans for a main oil pipeline from the region. The northern route for early oil was opened in November 1997 to move Azerbaijani crude to the Black Sea port of Novorossiysk. In April 1999, a western route to the Georgian part of Supsa was completed. In early 2000, intergovernmental and host government agreements for the Baku-Tblisi-Ceyhan (BTC) main oil export pipeline were signed and ratified by the parliaments of Azerbaijan, Georgia, and Turkey, and a pipeline sponsors group was formed in October 2000. The \$2.7 billion pipeline will transport Caspian crude to the Mediterranean by 2005. The U.S. firm Bechtel was awarded the contract for detailed engineering of the BTC pipeline in May 2001. Kazakh crude has been shipped via barge and rail through Azerbaijan to Georgian ports on the Black Sea. Talks are also underway to build a gas pipeline from Baku to Turkey for the export of gas from a BP-operated PSA at Shah Deniz.

Given these recent advancements in Caspian energy development, over USD9 billion in business opportunities are expected during the next 6-36 months in Azerbaijan and the Caucasus, with many billions more to be invested in Kazakhstan's eastern Kashagan oil and gas fields. Over 70 American companies, primarily in the oil and gas sector, are now resident in Baku. The American Chamber of Commerce in Azerbaijan boasts over 80 members and is active in working to improve the business climate, most notably in a July 2001 White Paper presented to the Azerbaijan government. Recommendations for improvements in tax collection and administration, creation of an independent judiciary, streamlined customs procedures and others areas were noted in the White Paper.

Best prospects for U.S. products and services in 2002 include oil/gas field machinery and services; architectural, and construction, engineering services; building materials; telecommunications equipment and services; and food processing/packaging equipment. Imported consumer goods have become increasingly available, although less expensive Russian and Turkish goods predominate in the market. In 2000, total Azerbaijani imports increased by 13.1 percent from 1999 to USD1.17 billion, including USD210 million from the United States. The United States is the third largest exporter (following Russia and Turkey) to Azerbaijan, with 8.9 percent of total exports to Azerbaijan in 2000. Not included in these statistics is the re-export of U.S. products through Turkey and Dubai, which account for a significant, unrecorded market share.

Country Commercial Guides can be ordered in hard copy or on diskette from the National Technical Information Service (NTIS) at 1-800-553-NTIS. U.S. exporters seeking general export information/assistance or country-specific commercial information should consult with their nearest Export Assistance Center or the U.S. Department of Commerce's Trade Information Center at 1-800-USA-TRADE or go to the following websites: www.usatrade.gov, www.usatrade.info.gov or www.usembassybaku.org.

CHAPTER 2: ECONOMIC TRENDS AND OUTLOOK

Azerbaijan has made impressive progress in recovering from the sharp and sustained decline in economic activity that characterized much of the last decade. Its success to date, however, has stemmed almost entirely from investment in and development of its energy sector.

Azerbaijan's future sustainable economic development depends on whether the GOAJ is able to implement reforms that will create a functioning market economy based on competition and rule of law. Without a stable investment climate in the non-energy sector, Azerbaijan's dependence on the volatile energy sector will grow and the GOAJ will be unable to create the employment opportunities needed to improve the conditions of the approximately 60 percent of Azerbaijanis living in poverty.

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In 2000-2001, the GOAJ took important steps to ensure the country's continued development. It created a new State Oil Fund to serve as an instrument for both macroeconomic stability and future economic development. The fund, with assets in excess of \$430 million as of August 2001, will receive all "profit oil" revenues belonging to the Azerbaijan Republic, oil bonus payments from 2000, and selected other oil and gas revenues. The fund's charter establishes clear asset management guidelines, and it should generate interest income to fund important infrastructure and social projects. Azerbaijan also secured approval from the IMF for a three-year Poverty Reduction and Growth Facility program in July 2001. The IMF disbursed the first tranche of \$10 million in July and will make available up to \$100 million to support the government's economic program, subject to continued progress in implementing structural reforms.

GOAJ fiscal and monetary policies have resulted in low inflation of 1.8 percent in 2000 and .8 percent in the first six months of 2001. The National Bank has pursued a policy of gradual nominal depreciation of the Azeri manat. The exchange rate as of September 21, 2001 was \$1 = 4,670 AZM. In 2000, GDP growth registered 11.4 percent. GDP growth in the first seven months of 2001 is estimated at 9.1 percent. Higher oil prices coupled with increased production helped Azerbaijan achieve a trade surplus of \$573 million in 2000, compared to an estimated trade deficit of \$105 million in 1999.

In August 2000, President Aliyev issued a decree approving a Second Program for Privatization of State Property, under which many large, state-owned enterprises are to be privatized. This program follows the GOAJ's first stage privatization program, begun in 1995, during which more than 29,000 small and 1,000 medium and large state-owned enterprises and facilities were privatized through check and cash auctions, closed subscriptions, and auctions. In March 2001, the GOAJ issued decrees identifying several hundred enterprises and joint ventures to be privatized or put under long-term management contracts with private investors. As a result of the first privatization program and land reform, the private sector's contribution to GDP has grown. Although official statistics put the private sector's contribution to GDP at 68 percent in 2000 (compared to 29 percent in 1994), independent observers estimate that the private sector's share of GDP remains between 50 and 60 percent.

The energy sector increasingly dominates Azerbaijan's economy. Oil and oil products accounted for 85 percent of Azerbaijan's exports in 2000, and increased to more than 90 percent of exports in the first half of 2001. With full development of the Azerbaijan International Operating Company's (AIOC) Azeri-Chirag-Guneshli fields and development of other new fields, oil production is projected to peak at between 1.5 and 2 million barrels per day between 2010 and 2020. Azerbaijan plans to develop its large Shah Deniz gas and condensate field to supply domestic gas needs, as well as exporting gas to Turkey, Georgia, and possibly later to southern and east-central Europe. A number of exploration wells drilled in 2000-2001 yielded non-commercial quantities of hydrocarbons. Providing supplies and services to support the oil and gas sector is a growing area of economic activity, as is planned construction of the infrastructure needed to transport oil and gas production as it comes on-stream.

Agriculture is Azerbaijan's next largest sector after energy, and further development of agribusiness is essential to creating employment opportunities and increasing family income. Agriculture employs more than 35 percent of the work force and in 2000 accounted for 18.1 percent of GDP. The sector presents potentially profitable business opportunities, but the country's regulatory system must become more transparent and less arbitrary if Azerbaijan is to attract significant foreign investment to the sector. Corruption, particularly in cash businesses, is a problem. Some foreign investors in the agricultural sector have been forced to halt operations when powerful, well-connected groups seeking to establish or preserve private monopolies have interfered with their business operations.

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A historical food exporter, Azerbaijan has at least six agro-climatic zones varying from temperate to sub-tropical that can support the production of various crops. Irrigation is required to obtain commercial yields on much of Azerbaijan's agricultural lands. The irrigation network that supported the former collective/state farm system has been poorly maintained for the past 10 years and is in need of significant repair and improvements. Small and medium size farms, ranging from one or two hectares to several hundred hectares, produce nuts, fruits, vegetables, dairy products, meat, and some poultry under labor-intensive conditions. Many small producers operate at a subsistence level. Imports of meat, edible oils, milk, and sugar vary from 30 to almost a 100 percent, respectively, of the country's consumption of these products.

Agricultural enterprises of all sizes lack credit. Many international assistance organizations have micro-credit and small business loan programs. Azerbaijan's banking system does not provide adequate credit to the agricultural and other sectors. The United States and other international donors have directed assistance to development of small and medium size enterprises, focusing on the private agribusiness sector. U.S. Agency for International Development assistance has supported training in business management and planning, use of improved technology, training in finance, credit, international accounting standards, marketing and development of agricultural associations.

In addition to growth in the energy and agribusiness sectors, Azerbaijan has in recent years experienced increased production in chemicals/petrochemicals, metallurgy, machine-building and transportation services. Construction services associated with the development of Azerbaijan's energy transportation infrastructure present some of the best opportunities.

Azerbaijan's balance of payments financing gap through March 31, 2002, is projected to equal \$50 million. Under the new IMF PRGF, this gap is to be closed by projected disbursements from the IMF and the World Bank.

The national infrastructure, built in the Soviet period, is in poor condition. Since independence there has been little public investment in or maintenance of public infrastructure. Roads are inadequate and deteriorating. Several World Bank and European Bank for Reconstruction and Development (EBRD) financed projects to upgrade roadways, railways and ports represent a start in addressing serious infrastructure needs. Upgrades of Azerbaijan's transportation system are being made in conjunction with the EU's TRACECA (Transport Corridor Europe Caucasus Asia) program. Azerbaijan's electrical generation and distribution system is in poor condition, although improvements are planned. The irrigation system serving about sixty percent of the country's arable land needs rehabilitation. Baku occasionally experiences shortages of gas, water, and electricity. In the regions, the electricity supply is poor and gas supply extremely limited. Public utilities are crippled by their inability to collect payments from customers, although the GOAJ has taken some actions to improve collections. During the winter of 1999-2000, Azerbaijan experienced a serious energy shortage, with occasional rolling blackouts in the capital and severe gas shortages throughout the country.

CHAPTER 3: POLITICAL ENVIRONMENT

Azerbaijan straddles a strategic crossroad between east and west. Occupying an area slightly smaller than the state of Maine, Azerbaijan is bordered by Russia, Georgia, Armenia, Iran and the Caspian Sea. According to the 1999 census, it has a population of 8.040 million, slightly more than half of which live in urban areas. Located on the western shore of the Caspian on the Apsheron peninsula, the capital city of Baku is poised to become a regional transportation and communications hub for the Caucasus and Central Asia.

Following a series of coup attempts after his arrival to power in 1993, President Heydar Aliyev was able to consolidate power and establish a stable political environment by the mid-1990s. Re-elected in 1998, the president enjoys broad powers and dominates Azeri political life. The current parliament consists of a majority of Aliyev's supporters as well as opposition and independent deputies. A lively, critical opposition exists. These opposition groups have withstood efforts by some in government to restrict their activities.

Although substantial political pluralism exists, Azerbaijan's record of administering elections has been flawed. Presidential elections in 1998 and parliamentary elections in 2000 did not meet international standards. The next major contest will be the presidential election scheduled for 2003. As a condition of its accession to the Council of Europe in January 2001, Azerbaijan undertook important commitments in the areas of democratization and human rights.

The United States enjoys close relations with Azerbaijan. U.S. policy aims to support Azerbaijan's independence, sovereignty and territorial integrity by helping build market-oriented, democratic institutions, secure peace and cooperation in the region, and facilitate Azerbaijan's integration into the Euro-Atlantic community. Azerbaijan seeks close cooperation with the United States. President Aliyev's April 2001 visit to the United States took him to Key West,

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Florida for talks with Armenian President Kocharian on the Nagorno-Karabakh conflict and then to Washington to meet with President Bush. As a co-chair together with France and Russia of the OSCE Minsk Group, the United States is helping mediate an end to the Nagorno-Karabakh conflict.

U.S. relations with Azerbaijan are complicated by Section 907 of the FREEDOM Support Act of 1992, which restricts direct U.S. government assistance to the government of Azerbaijan. Azerbaijan views this legislation as supportive of Armenia in the conflict over Nagorno-Karabakh. All U.S. administrations have opposed Section 907, but attempts in Congress to repeal it have not succeeded. Exceptions to the restrictions that Section 907 imposes have been enacted to allow U.S. aid to Azerbaijan in certain areas. U.S. non-governmental organizations (NGOs) and such U.S. export promotion agencies as the Department of Commerce's Commercial Service, the Overseas Private Investment Corporation, the Export-Import Bank, and the Trade Development Agency also operate in Azerbaijan.

CHAPTER 4: MARKETING U.S. PRODUCTS AND SERVICES

A. Distribution and Sales Channels

In many cases, local companies are distributors for products of different brands. Turkish, European, U.S. and Russian products tend to dominate this price-sensitive market. Several well-established Azeri firms in the information technologies and construction sectors have successfully sold U.S. and European equipment and services in Azerbaijan. Extensive due diligence should be done on any potential Azeri distributor before concluding an agreement or shipment given the risks inherent in doing business in Azerbaijan.

U.S. firms looking for opportunities in Azerbaijan should focus on medium-sized, private Azeri firms with a minimum three-year track record and credit history. State enterprises are unlikely candidates for performing distribution and sales activities on behalf of U.S. firms; these enterprises lack the resources to cover the costs of maintaining U.S. product inventory for the local market. Azeri firms generally have poor cash flow, given the lack of affordable credit and other structural disincentives. Training and flexible stock/inventory options will help U.S. goods and services penetrate the Azeri market. Given Baku's dominance of the market, it is best to work with a Baku-based firm for onward distribution throughout the country. The U.S. Embassy Commercial Service's International Partner Search can help U.S. firms identify strong, reliable local partners (see Section X.)

B. Use of Agents and Distributors

Western entrepreneurs act as agents for U.S. companies in Azerbaijan, and an increasing number of Azerbaijani trading firms have established track records as partners with Western firms. For U.S. firms not willing to commit resources to the relatively small market of Azerbaijan, an agent or distributor may be the best initial approach. An agent will work better if the U.S. good/service is relatively unknown or untested in the market, as the agent will have limited overhead and

inventory for a new product in the market. For more competitive, developed market segments, a distributor provides the best option for business development. Verifying the financial bona fides of prospective partners is difficult. Given this challenge, potential exporters should plan to visit Azerbaijan to build personal relationships, set up local sales networks, or establish partnerships with local agents or distributors. The International Partner Search noted above provides a cost-effective, high-impact service to enter the Azeri market.

C. Franchising

Franchising is largely an unknown concept in Azerbaijan. The American fast food chain McDonalds has operated a restaurant in Baku since November 1999 and plans to open two more restaurants in Baku in 2001-2002. The hypermarket Ramstore (Turkey) has several outlets in Baku. The future development of franchising will hinge on the overall economy, progress on key reform issues, and establishment of the legislative basis for franchising.

D. Direct Marketing

In Baku, B2B telemarketing and fax marketing to business customers is common but not necessarily effective. By contrast, person-to-person direct marketing works well (e.g., with health and beauty products). Other direct marketing channels (catalogs, e-commerce and regular mail) are still in their infancy. Many shippers are reluctant to send goods without prepayment. The number of customers with credit and debit cards is increasing, but card scarcity remains a key constraint on the growth of catalog orders and e-commerce. Nevertheless, sales through these channels are expected to grow rapidly in coming years because they bypass the relatively high costs of retail distribution. The U.S. Embassy Commercial Service, as part of a joint venture between IBM and the U.S. Commercial Service, is planning a Fall 2001 launch of BuyUSA.com in Azerbaijan, which will allow for direct, online marketing and sales of U.S. goods and services to Azeri consumers.

E. Joint Ventures/Licensing

Given weak shareholder rights, an underdeveloped legal system, and poor understanding of Western business practices, U.S. firms considering joint ventures (JVs) should consider the deal structure very carefully before committing to a JV. This is particularly true in the non-energy sector, which is unprotected by the PSAs that shield the longer-term oil and gas sector investments. While U.S. firms will be encouraged to take on a local partner on the front end of the deal, experience has shown that a number of these transactions find problems later in the life of the JV. Should a JV be considered optimal in its proposed deal structure, U.S. firms should ensure tight management control, clear capital increase and cash call provisions, and an exit strategy should that become necessary.

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Licensing presents obstacles for all firms in Azerbaijan.

A wide variety of licensing requirements exist, and the application of licensing regulations is inconsistent and non-transparent. State agencies will often delay issue of licenses or not respond to licensing applications at all. U.S. and Azeri companies report that corruption presents a major problem in this area. The following is a non-exhaustive list of activities subject to licensing based on the authority responsible for issuing the license.

1. State Committee of Geology and Mineral Resources

- Geological subsoil survey
- Exploration and extraction of underground water
- Commercial mining of non-ore building materials, decorative stones and gems
- Use of waste from mining operations
- Creation of specially designated geological facilities (scientific and educational test structures, geological reserves and sanctuaries, natural monuments, caves and other underground cavities) for scientific, cultural, esthetic and medicinal purposes
- Collection of mineralogical, paleontological, and other geological materials
- Creation of specially protected geological sites of scientific, cultural, aesthetic, health treatment significance (scientific and educational proving grounds, geological reserves, preserves, natural monuments, caves and other underground cavities)
- Use of production wastes connected with subsoil work

2. Ministry of Economic Development

- Storage of oil and gas products
- Sales of compressed and liquefied gas
- Operation of fuel-loading facilities
- Fish and aquatic animal farming
- Processing industrial wastes containing precious metals and stones
- Property assessment
- Leasing
- Import of ethanol (alcohol) and alcoholic drinks
- Import of tobacco products

3. State Committee for Monitoring of Industrial and Mining Safety

- Industrial design, construction and operation of explosive and inflammable parts of the production process; blast-proof equipment; fire protection and alarm system devices; mining operations; pipelines used for transporting oil and oil products; load lifters operated under pressure generated by boilers and tanks; discharge pipelines
- Commercial use, testing and storage of explosive materials and equipment, radioactive and ion-emitting hazardous substances, and instruments

- Subsoil survey
- Transportation of hazardous goods
- Operation and maintenance of railroad safety engineering facilities
- Training electric and gas welders, stokers, elevator electricians, blasters, draft miners and crane operators for hazardous production facilities
- Installation, adjustment and maintenance of power facilities, equipment and units
- Construction and operation of underground construction sites not connected with recovery of subsoil reserves
- Scientific research and experimental design related to use of ionizing rays
- Extraction, production, treatment and transportation of radioactive materials and use thereof
- Projecting and preparation of ion-emitting adjustments, equipment and storage and equipment related to radioactivity safety

4. Ministry of Agriculture

- Production, storage and wholesale trade in ethanol (alcohol) and alcoholic drinks
- Production, storage and wholesale trade in tobacco products
- Preservation of plants
- Stock-breeding

5. Ministry of Communications

- Communication services (international, inter-city, urban, rural, cellular and paging communication)
- Inter-trunk radio link, installation and operation of cable TV and courier services

6. State Committee for Construction and Architecture

- Construction (engineering research and design, construction, start-up and commissioning activities)
- Restoration of historical monuments of state significance

7. Ministry of Finance

- Independent accounting
- Non-state social funds activities
- Pawnbroker's activities

8. Ministry of Health

- Pharmaceutical, medical and non-traditional medical activities
- Manufacture of medical equipment and maintenance thereof
- Manufacture of orthopedic equipment

9. Ministry of Labor

- Employment services
- Manufacture of prosthetics
- Invitation and use of foreign labor

10. State Customs Committee

- Establishing customs storage warehouses and duty free shops within a given customs zone
- Free and provisional storage warehouses
- Customs relocation and clearance of goods within and outside a given customs zone
- Customs broker's activities

For firms engaged in international and inter-city passenger and cargo transportation and forwarding services, the following activities and licensors are listed

- Motor Transport – State Concern “Azerautonaqliyyat”
- Air Transport – State Concern “Azal”
- Water Transport – Caspian Steam-Navigation

F. Steps to Establishing an Office

According to the Law on Protection of Foreign Investments, foreign investors may establish the following legal entities:

- Enterprise with participation of foreign investors on a shared basis (joint ventures);
- Wholly foreign-owned enterprise (foreign enterprises);
- Representative office.

Once a U.S. firm has decided to open an office in Azerbaijan, it needs to choose between establishment of a limited presence, a joint venture or a wholly foreign-owned enterprise for entrepreneurial activity. A limited presence is possible in the form of a representative office or a branch. A representative office and a branch that are subdivisions of a

foreign legal entity are not considered to be an Azerbaijani legal entity, but both are still subject to taxation. A full legal presence as an Azerbaijani legal entity may be achieved through establishing the following forms of legal entities:

Once a U.S. firm has decided to open an office in Azerbaijan, it needs to choose between establishment of a limited presence, a joint venture or a wholly foreign-owned enterprise for entrepreneurial activity.

- Joint Stock Company
- General Partnership
- Limited Partnership
- Limited Liability Company
- Additional Liability Company

The Registration Department of the Ministry of Justice of the Azerbaijan Republic (further referred as MoJAz) is authorized to register all types of legal entities. It is important to understand the steps to be undertaken by the foreign investor in order to establish a legal entity in Azerbaijan.

1. A letter from the founder or another authorized person requesting registration of the legal entity (one copy).
2. Charter of the legal entity (5 notarized copies).
3. Resolution or foundation agreement stating its intent to establish a legal entity in Azerbaijan (2 copies).
4. A receipt evidencing payment of the state registration fee in manat (payment should be made to the State Budget Fund at the National Bank of Azerbaijan, Account 30100062, code 501004).
5. A copy of a lease agreement or other document certifying the entity's legal address in Azerbaijan.
6. If the foreign founder is a legal entity, a document verifying that the entity is duly registered in the U.S. must be submitted. If the founder is an individual, then documents identifying his character and entrepreneurial activity are to be acquired. Both documents first must be certified by the consular section of the Azerbaijani Embassy in the United States and then presented to the MoJAz (two copies).
7. For joint ventures, the MoJAz also requires two copies of the founding contract.

The list of documents to register a company branch or representative office (further referred as "CB/RO") of a foreign legal entity (further referred as "FLE") differs from the one described above. Along with the documents necessary for the registration of a wholly-owned subsidiary listed above under points 1, 4, 5, and 6, the following are to be additionally collected for the registration of a CB/RO:

1. The FLE's company charter and certificate of incorporation or equivalent. Both sets of documents must be notarized and then certified by the consular section of the Azerbaijani Embassy in the United States (two copies).
2. A statement of credit-worthiness from the FLE's bank (one copy).
3. A notarized power of attorney issued by FLE to the head of the CB/RO (two copies).
4. A resolution from the FLE's authorized body stating its intent to open an office in Azerbaijan (2 copies).
5. The CB/RO regulations signed and sealed by an authorized body of the FLE stating the purpose and objectives of the CB/RO and setting the operating principles of the

organization including the responsibility and power of the CB/RO chief executive/head (5 copies).

The registration fee for a branch office is approximately \$180 and for a representative office is \$2000, to be remitted in manat, to the account mentioned above.

The MoJAz may also request additional documents indicated below while registering either a company branch or representative office:

1. Two copies of the representative's identification documents/passport and three photos.
2. Sample of the FLE's seal and/or stamp (2 copies).
3. The FLE's tax identification number in the United States.

Although the MoJAz has decentralized and opened district offices, FLE's must continue to submit their registration documentation to the Ministry's central office. In compliance with the Law on State Registration of Legal Entities, the Ministry of Justice must complete the registration procedure within 10 days after all required documents are presented. In case of any problem with a company's submitted documents, the MoJAz must issue a letter within five working days describing the problem. Otherwise, the company's registration application goes directly to the Ministry Collegium and should be approved at the next registration board meeting. Following board approval, the Ministry will issue a registration certificate. The U.S. Embassy Commercial Service in Baku understands that the registration process often takes much longer and is less than transparent. Delays are common and sometimes unexplained. U.S. firms that experience registration problems are advised to contact the Commercial Service at the U.S. Embassy in Baku (see contact information in Chapter XI).

Once a registration certificate is obtained, there are certain post-registration procedures to be carried out by the newly registered legal entity:

- Obtain an official seal;
- Register at the Ministry of Tax;
- Register at the State Committee for Statistics;
- Register at the State Social Protection Fund;
- Register at the Employment Fund;
- Register at the Fund of Social Protection of Invalids; and
- Open a bank account in manat and U.S. dollars.

U.S. firms should remember that all documents from the FLE must be notarized and legalized in the United States. It is also important to know that according to the constitution and the Law on the State Language, Azerbaijani is the official language of administration, legislation, record keeping in all state bodies, enterprises and organizations in Azerbaijan. Therefore it is compulsory to accompany any document written in English with its notarized translation into the Azeri language.

The above information is provided solely as general advice. Laws and regulations including registration are subject to change. For detailed registration, legal, and tax counseling, U.S. firms are advised to contact tax and legal professionals resident in Azerbaijan to receive expert advice (see Chapter 11 below).

G. Selling Factors/Techniques

Azerbaijan is primarily a trading country, with the retail business largely unregulated and of the “street” variety. There are three primary market segments: (1) the largest share of the population earning the average monthly wage of \$55 or less; (2) a tiny but growing middle class with occasional disposable income; and (3) “new Azeris” noted for conspicuous consumption of top-priced items. The first two segments primarily focus on the unregulated yarmarki (street trade fairs) for cheap Turkish, Iranian, and Russian goods. U.S. consumer products firms should focus on the higher end of the market through retail outlets in Baku given the small but growing number of consumers with money to spend and interest in higher quality goods and services. Azeri shoppers are price-sensitive but extremely brand conscious. U.S. goods and services are lesser known than their Turkish or European competitors but are generally well-regarded and thought to be reliable – a key factor in the Azeri shopping mentality. Counterfeiting of consumer goods is a problem. Well-heeled Azeri shoppers are known for their impatience and desire to buy immediately and in cash rather than wait weeks for shipments from warehouses in nearby countries.

H. Advertising and Trade Promotion

Advertising is still in its infancy in Azerbaijan and is largely confined to newspapers and television and billboards. Outdoor billboards and lightboxes are some/widely used in Baku for advertising and trade promotions. Outdoor advertising for tobacco and alcohol products is prohibited. Newspapers in Azeri and Russian are published daily, except Monday. English-language papers are published weekly. Newspapers are widely sold and read and represent the best channel to reach the Azeri consumer. Television advertising is possible on Azerbaijan’s two state-run and four private TV stations. In addition, Baku receives three Russian TV channels. Turkish TV is also received. There are seven private FM radio stations. Advertising of tobacco products is prohibited. For alcoholic products, it is allowed with some restrictions only after 10:00 p.m. on local TV and radio stations. Please see Chapter XI for a complete listing of the major Azerbaijani newspapers, business journals and TV and FM channels.

I. Pricing Product

Prices may be quoted in U.S. dollars. However, in accordance with Azerbaijani law, actual sales are officially quoted in manat. In practice, U.S. dollars are widely accepted. In true Middle Eastern tradition, Azeris expect to bargain over prices. With the exception of goods such as gasoline and certain other products, the government does not set retail prices. Prices include the 18 percent value added tax (VAT).

J. Sales Service/Customer Support

While customer service in Azerbaijan is in its infancy, more local firms are developing a Western-style customer service approach. Cellular operators and information technologies firms in Azerbaijan are known for their high-quality service and customer support. Product guarantees are still rare.

K. Selling to the Azerbaijani Government

Selling to the central government or to state enterprises is difficult because government funds are scarce. Except for World Bank and EBRD projects, financing for major capital projects is not available. At present, the government is running arrears in payments to domestic suppliers. Inter-enterprise debts are massive with little prospect of being reduced. State enterprises are often late paying their employees. Firms selling to the GOAJ should be particularly careful to specify beforehand how the 18 percent VAT will be levied. In short, absent external financing such as tenders backed by development bank financing, selling to the government should be approached with extreme caution.

Selling to the central government or to state enterprises is difficult because government funds are scarce.

L. Protecting Products from IPR Infringement

Azerbaijani law protects copyrights, patents, trademarks, and industrial designs. The U.S.-Azerbaijan bilateral trade treaty also covers intellectual property rights (IPR). Azerbaijan belongs to the World Intellectual Property Organization (WIPO). In reality, GOAJ mechanisms to enforce IPR laws are minimal and copyrighted products are often sold in markets and stores with no provision to pay royalties to copyright holders. CDs and Western videos, dubbed in Russian or Azeri, are sold at less than 15 percent of their market value in the West. True IPR enforcement remains a long-term prospect in Azerbaijan.

M. Need for a Local Attorney

Given the challenges of doing business in Azerbaijan, U.S. clients are advised to retain strong legal counsel locally. This especially includes at the outset of any transaction involving investment, structuring of joint ventures, and the like. The Azerbaijani legal system does not yet contain a transparent body of commercial law, and implementation of court decisions is haphazard at best. A new civil code was adopted in September 2000 and has, to a certain extent, improved the legal environment for commercial activity. It has changed policy in regulating economic relationships. The previous civil code was designed for a planned economy, while the new one was created for market economy and is more flexible. More possibilities emerged for creating various forms of enterprises and various types of agreements. Please see Chapter XI for a list of law firms and consulting companies with offices in Azerbaijan.

CHAPTER 5: LEADING SECTORS FOR U.S. EXPORTS AND INVESTMENT

The market for U.S. goods and services in Azerbaijan can be divided between (1) selling to the international oil consortia and (2) sales outside the international oil consortia. There is significant demand for the products and services listed below, particularly among companies operating with a PSA. Sales outside the PSA structure to private local companies and government agencies are more difficult. Purchase contracts with GOAJ involvement are coordinated and awarded according to GOAJ priorities and available financial resources. These may change from year to year. As a result, forecasting future sales can be difficult. Statistical data is limited or unreliable. Products manufactured in Russia or other countries of the former Soviet Union may be preferred by some state agencies because they are more compatible and less expensive with existing Soviet-era production lines. Competition from Europe and Asia is intense and often tied to foreign aid or financing. U.S. suppliers offering attractive financing will be more successful in Azerbaijan than those seeking cash sales only. The U.S. Export-Import Bank (Exim) should be brought into a deal at an early stage for any public sector transaction or transactions that contemplate an Exim insurance product.

A. Best Prospect Sectors for Non-Agricultural Goods and Services:

1. Oil/gas field machinery OGM

Major opportunities exist in 2001-2005 for U.S. oil and gas field equipment producers given the expansion of AIOC's offshore oil and gas production, representing upwards of \$9 billion in procurement opportunities. Included in this sector are winches, capstans, jacks, and their parts; rotary and stationary air and vacuum compressors, and parts; and cranes and reciprocating positive displacement oil well and oil field pumps. Due to extensive onshore and offshore development, this sector remains at the top of the Best Prospect Sectors List that includes most types of equipment related to the exploration, extraction and transportation of oil and gas.

Phase one of AIOC's full-field development of Azeri-Chirag-Guneshli (ACG) is expected to increase production to 350,000 barrels per day (bpd) by 2004 over current levels of 100,000-130,000 bpd. AIOC sanctioned the first phase of the full-field development of the ACG fields in August 2001. This phase will include the drilling of additional wells, the development of the Azeri structure and underwater transportation pipelines. The ACG fields have taken on added importance since disappointing exploration results have been reported at other offshore fields. A sponsors group of international oil producing companies completed a basic engineering study for the Baku-Tblisi-Ceyhan (BTC) main export pipeline in June 2001, and Bechtel was awarded a contract to carry out detailed engineering for the project in Azerbaijan and Georgia. ILF was awarded a similar contract in Turkey. Both BTC and a planned gas export pipeline will require Supervisory Control and Data Acquisition (SCADA) systems, including leak detection, operations control centers, pump stations, mainline block valves and tank farms. Once the detailed engineering is completed, the participants in the sponsor group for the pipeline are expected to authorize financing and construction contracts for the BTC oil pipeline.

Present offshore rig capacity allows for only four to six wells to be drilled per year. Given this rig shortage, the major international oil consortia established a Rig Club to pool resources. While some additional capacity will be gained through the construction of a new semi-submersible rig, future needs in the Caspian considerably exceed the available equipment pool (see Oil and Gas Services below). A new shallow-water jack-up rig began operation in early 2001, increasing offshore drilling capacity in shallow waters. The DSS-20, a new semi-submersible drilling rig, is currently under construction in a Baku shipyard – the first new rig to be built in the Caspian in over ten years.

The nineteen operating PSA consortia will pre-qualify equipment and services providers as possible subcontractors and suppliers and award purchase contracts accordingly. Often, a single sub-contractor will be named that will make and coordinate the purchase of all equipment and supplies required by a consortium during the course of a contract. Consortia and their sub-contractors give priority to U.S. firms that have an established presence in Azerbaijan and strong knowledge of local business practices. Companies interested in providing equipment and services to consortia are encouraged to contact them directly, register their companies as future suppliers and demonstrate their presence. If selected, many of the provisions set forth in the respective PSAs, such as exemption from import duties and VAT, will usually extend to subcontractors and suppliers, eliminating the endless tax and customs headaches that can plague operations in Azerbaijan.

		<u>1999</u>	<u>2000</u>	<u>2001 (e)</u>
A.	Total Market Size	n/a	n/a	n/a
B.	Total Local Production	n/a	n/a	n/a
C.	Total Exports	n/a	n/a	n/a
D.	Total Imports	n/a	n/a	n/a
E.	Imports from the U.S.	n/a	n/a	n/a



2. Oil, Gas, Mineral Production/Exploration Services OGS

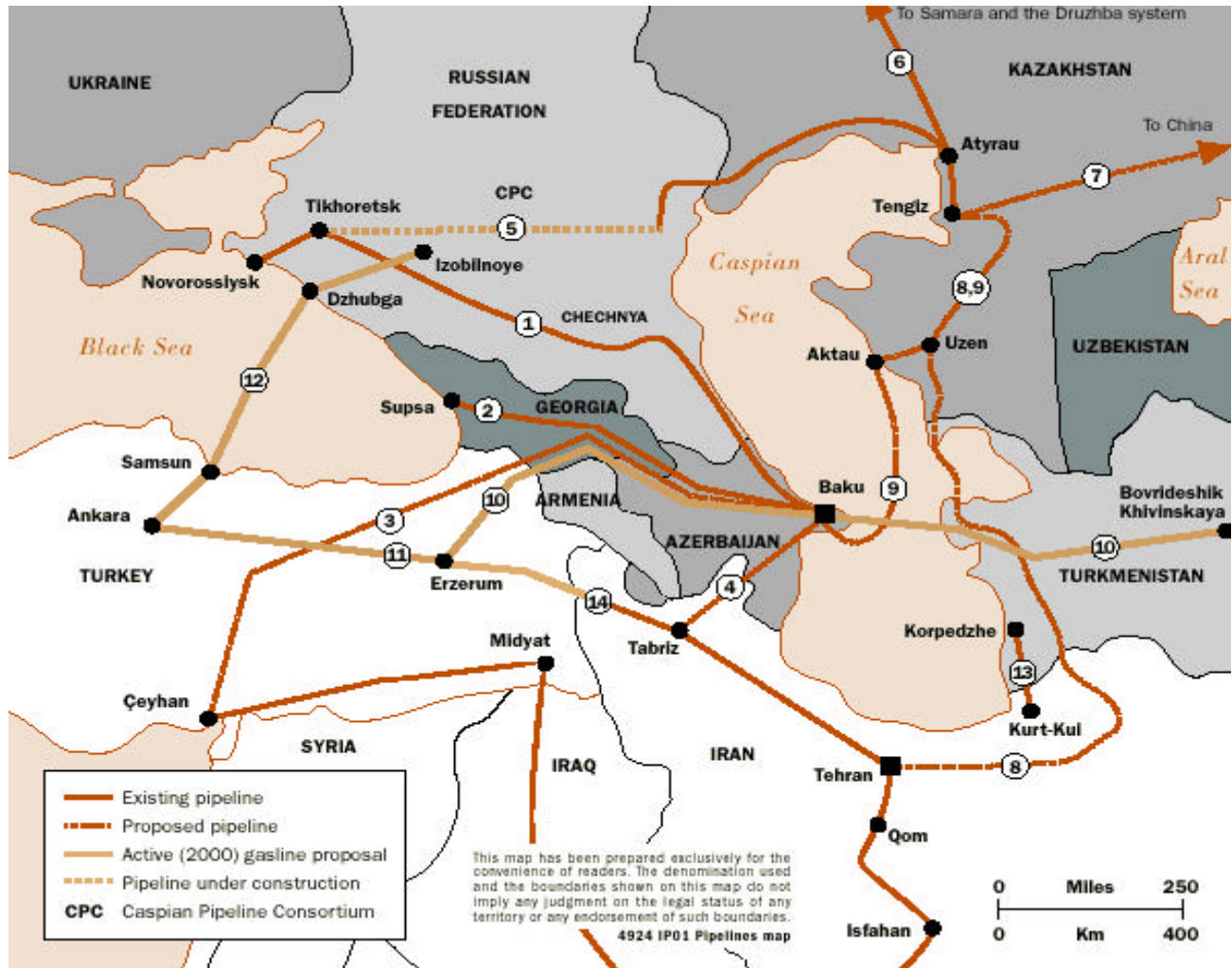
Development of AIOC's Azeri-Chirag-Guneshli (ACG) fields, the Shah Deniz gas field, and two major oil and gas pipelines present major opportunities for U.S. construction, engineering, and oil field services companies. Additional geophysical support will be needed for further onshore/offshore exploration. Geophysical services for the oil consortia for acquisition and processing of 2D/3D seismic data are in demand, however the recent drilling of several "dry holes" has dampened business somewhat. Caspian Geophysical, a joint venture between Schlumberger and SOCAR, operates two state-of-the art seismic vessels, the "Baki" and "Galivar" as well as a world-class data processing center. In 2000, Caspian Geophysical expanded its services using 2D/3D seismic technology in shallow water and transition zones. ACG Full Field Development Phase One also envisages the construction of a drilling platform for 48 wells, a gas compression facility, an underwater pipeline from the Azeri field, and modernization of the Sangachal terminal.

As noted above, exploration in the Azeri section of the Caspian Sea has been slow because only three drilling rigs are currently available in Azerbaijan. This has delayed exploration projects of the oil consortia as they vie for limited rig slots. Caspian Drilling Company (a subsidiary of Santa Fe Drilling) began the fourth modernization phase of the Dede Gorgud semi-submersible rig in Fall 2001. Following modernization, the Dede Gorgud will be able to use larger diameter drill pipes, improve the cleaning system and thus upgrade drilling agent controls, and add an additional twenty berths for rotator crews. A third mud pump will be installed to increase pump rates and drilling speeds. Preliminary estimates for the Dede Gorgud upgrade are about \$ 10 million.

Project management and engineering services also hold large potential for U.S. firms in this area. Quality assurance and control systems are now being offered by several firms in Baku, including Brown & Root and McDermott. In July 2001, Bouygues Offshore was granted an interim award by AIOC for the fabrication of offshore structures to be installed on the Azeri field. The EUR 170 million contract will cover the fabrication and loading of two jackets and associated piles with a total weight of 45,000 tons. The structures will be built at the Baku yard of Shelfproyektstroi, a subsidiary of SOCAR after the refurbishment of the yard. The project will take three years and presents longer-term opportunities for U.S. sub-suppliers.

		<u>1999</u>	<u>2000</u>	<u>2001 (e)</u>
A.	Total Market Size	n/a	n/a	n/a
B.	Total Local Production	n/a	n/a	n/a
C.	Total Exports	n/a	n/a	n/a
D.	Total Imports	n/a	n/a	n/a
E.	Imports from the U.S.	n/a	n/a	n/a

Map of existing and proposed pipeline



Members of AIOC

Name	Share (%)
BP Amoco (UK/US)	34.2
Statoil (Norway)	8.6
Itochu (Japan)	3.9
ExxonMobil (US)	8.0
Unocal (US)	10.0
Lukoil (Russia)	10.0
Pennzoil (US)	4.8
SOCAR (Azerbaijan)	10.0
TPAO (Turkey)	6.7
DeltaHess (US/Saudi Arabia)	3.8

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3. Architecture/Construction/Engineering Services ACE

The construction market in Azerbaijan has rapidly evolved from a state controlled monolith to one marked by upstart architectural, design and building firms with a thirst for the latest Western technologies and building materials. The construction sector is still heavily dependent on the development of the oil and gas sector, the backbone of Azerbaijan's economy. The lack of acceptable financing (i.e., bank loans and working capital on reasonable terms) forces Azerbaijani construction companies to rely on private capital. However, for targeted proposals backed by trade financing, there is potential business growth for U.S. firms with interest in this challenging market. Apartment and commercial renovation, construction related to the oil and gas sector, and demand for modern construction equipment and materials are key elements of future market growth. Large-scale development projects, particularly pre-fabricated housing and warehousing for the oil and gas industry portend huge potential in procurement needs from 2001 to 2003. Project pipelines involving international financial institutions as well as sub-contracted turn-key projects for the international oil consortia in the Caspian region should also be considered.

Over \$9 billion in procurement opportunities for U.S. oil and gas service firms and subcontractors are expected over the next 6-36 months in the Caspian region. These opportunities cover mainly subcontracting to oil companies in construction, engineering, and telecommunication sectors, as well as operational support and supplies (e.g., pre-fabricated housing, warehouses, supply of tools and materials, etc.). Recent advancements in Caspian energy development creating new business prospects for U.S. ACE firms include:

- The conclusion of a gas sales-purchase agreement between Azerbaijan and Turkey will open up vast opportunities for engineering, procurement and construction to ship natural gas from Azerbaijan to Turkey.
- Bechtel's award for detailed engineering for the Baku-Tbilisi-Ceyhan pipeline foresees outsourcing component projects to other companies.
- Construction of the first semi-submersible rig in Azerbaijan since the Soviet period.
- Loading of first oil by the Caspian Pipeline Consortium in Fall 2001.
- Recent announcement of a \$600,000 Trade Development Agency (TDA) grant for a feasibility study to upgrade two Baku refineries and the port of Dubendi. This study covers assessment of the Baku refineries and the Dubendi port to review processing and transportation capacities for Kazakh and Turkmen crude, which would free up sweeter, lighter Azeri crude for transportation through the Baku-Tbilisi-Ceyhan pipeline. If the study proves this project to be commercially viable, it would create opportunities for US petroleum and infrastructure and engineering companies.

		<u>1999</u>	<u>2000</u>	<u>2001 (e)</u>
A.	Total Market Size	n/a	n/a	n/a
B.	Total Local Production	n/a	n/a	n/a
C.	Total Exports	n/a	n/a	n/a
D.	Total Imports	n/a	n/a	n/a
E.	Imports from the U.S.	n/a	n/a	n/a

4. Telecommunications equipment TEL

With the rapid growth of oil and gas investment in Azerbaijan since 1994, the telecommunications sector has attracted increasing foreign supplier interest. Oil and gas production and pipeline development will also create opportunities for U.S. telecommunications equipment suppliers, operators, and system integrators. The continued tight control and monopolistic practices of the Ministry of Communications, however, will affect overall development of the sector and medium-term opportunities for U.S. telecom equipment providers.

Clear opportunities exist for U.S. firms as equipment providers or subcontractors for ICT solutions on behalf of major multinational oil firms active in Azerbaijan. British Petroleum (BP), as operator of AIOC, plans to install a fiber optic cable along the BTC pipeline. This includes procurement, construction, and turn-key installation of fiber optic cable from offshore facilities to the Sangachal terminal in Azerbaijan, and then on to Georgia and Turkey. The project, subject to approval from relevant governmental authorities, will create a fiber optic backbone to back up existing microwave telecommunications for the Azeri-Chirag-Guneshli and Shah Deniz (SD) development and for two major onshore oil and gas pipelines. In the near future, BP/AIOC will review three projects: (1) 250-300 kilometers of offshore fiber optic cable from SD to Sangachal (forty kilometers south of Baku); (2) 735 kilometers of fiber optic cable along a planned gas pipeline through Azerbaijan and Georgia to the Georgian-Turkish border; and (3) 480 kilometers of fiber optic cable for BTC. A junction box will be installed at SD for the offshore cable, which will then make landfall near Sangachal. The project will be technically challenging given the varying offshore depths and a vast network of underwater pipes left from the Soviet period. The fiber option is preferred over satellite-based telecommunications systems because of reduced cost, higher capacity, and proximity to several global routes, including the Trans-Eurasia Fiber Optic Link (Frankfurt-Shanghai).

Several telecommunications and Internet service providers (ISPs) are planning to expand, increase the number of local subscribers, improve quality of communications, and offer new services, such as ISDN, PBX, DECT wireless communications, as well as hardware and software. These expansion plans include renovation of automatic telephone exchanges, supply of modern technology, consolidation of telephone stations in single networks, and increased points of presence for ISPs in different regions of the country.

Telephone usage remains low in Azerbaijan, with a teledensity ratio of 52.7 as of mid 2001, but plans exist for an additional 300,000 fixed subscribers by the end of 2001. Azericell, a joint venture of Turkcell and the Ministry of Communications for cellular service with over 400,000 subscribers throughout Azerbaijan, began a network expansion in 2001 and continues to grow. Bakcell, which includes Motorola as a shareholder, has also seen increased sales in 2001. Overall, Azerbaijan is the leader among the former Soviet states in cellular subscribers, which totaled 530,000 in August 2001. The Ministry of Economic Development has discussed the possibility of a third GSM provider in coming years, but local

experts find this unlikely given the structure of the local cellular market. U.S. suppliers should monitor developments in mobile communications for future sales opportunities.

		<u>1999</u>	<u>2000</u>	<u>2001 (e)</u>
A.	Total Market Size	n/a	n/a	n/a
B.	Total Local Production	n/a	n/a	n/a
C.	Total Exports	n/a	n/a	n/a
D.	Total Imports	n/a	n/a	n/a
E.	Imports from the U.S.	n/a	n/a	n/a

5. Telecommunications services TES

Further economic development and expansion of petroleum operations will create new opportunities and demands in the market for complete telecommunications solutions. However, until the GOAJ takes decisive steps in reforming the legal/regulatory framework and executive bodies responsible for telecom operations, limitations will remain and hinder rapid development, especially in the area of international telecommunications. In 2001-2002, U.S. firms should monitor direct contract and sub-contracting opportunities to the international oil consortia, which will require expanded telecommunications services, particularly for data transfer.

Aztelecom is the national telecommunications operator (stationary lines). Aztelecom has a monopoly on long distance and international calls, including leasing of intercity and international channels. Aztelecom is regulated by the Ministry of Communications. It offers the following services: local, intercity, and international telephony; data transmission; telegraph; telex; TV and radio broadcasting; cable transmissions; leasing of frequencies; Internet access; and a telephone pay-card system. As a matter of policy, the government plans to privatize Aztelecom, but the timing and methods are unclear. Similar past transactions have proceeded slowly and involved a mixture of cash, investment obligations, and social obligations. Some informed sources suggest that over 51 percent of Aztelecom's shares will be put up for privatization. Azerbaijan's telecommunications system, with a few notable exceptions such as Bakcell, Azercell and Azeurotel, is in need of capital and strong, Western management. Key issues that need to be addressed prior to privatization include: improving the range and quality of services; review and commercialization of the tariff system; further regulation of settlements between operators and networks; and creation of a proper legal and normative basis in the telecommunications industry. The Ministry of Communications acts both as a regulator of the industry and a joint venture participant in a telecom business, usually holding majority shares in these ventures.

Internet usage in Azerbaijan is poised for explosive growth in 2001-2005. Currently there are 10 - 30,000 Internet users in Azerbaijan, and Internet usage is increasing, especially in informal Internet cafes. Some Internet firms have begun to roll out points of presence in various Azeri cities. The regulatory environment is key to Internet development. The

Ministry of Communications has been roundly criticized by ISP's for its continued interference in this sector, including a controversial September 2000 decree "On Introducing Additional Payments for Using Fax Communications and the Internet." The Ministry's September 2000 closing of an international channel to ISP's resulted in temporary disruption of 70 percent of Internet services in Azerbaijan. U.S. telecom/IT services firms should position themselves with strong ISPs that will see a growing number on Azeris on-line in 2001-2005.

		<u>1999</u>	<u>2000</u>	<u>2001 (e)</u>
A.	Total Market Size	n/a	n/a	n/a
B.	Total Local Production	n/a	n/a	n/a
C.	Total Exports	n/a	n/a	n/a
D.	Total Imports	n/a	n/a	n/a
E.	Imports from the U.S.	n/a	n/a	n/a

6. Building Products BLD

According to several Azerbaijani construction firms, today's market is more results-oriented, time-sensitive, and largely rejects low quality materials and workmanship. Stock is also a key element for Azerbaijani firms because clients want timely delivery of building materials and services. Inventory requirements are a financial challenge and risk for construction firms operating in this country.

According to several leading firms, the following construction materials are now considered to be in demand and represent opportunities for U.S. business:

- Assortment of different colored woods for parquet floors and finishing;
- Ceramic products (tiles, mats, etc.);
- Doors, insulated windows and American style window frames;
- Drywall;
- Architectural, construction, and engineering (ACE) services;
- Heat, ventilation, and air conditioning systems;
- Building materials suited for extreme temperatures;
- Open vinyl sidings;
- U.S. standard sanitary engineering and lighting accessories;
- Varnish paints;
- Various types of wallpapers; and
- Water and sound proofing materials.

These building materials can be found on the Azerbaijani market, mostly sourced out of Turkey and Dubai and perceived to be of lesser quality. U.S. and European materials enjoy a stronger reputation for quality and, while more expensive, are preferred by Azeri consumers that are in a position to pay. Local sources report that sales are often dependent on product availability in Baku, and that Azeri consumers are often the "cash and carry" type who will rarely suffer long supply lines from the United States or Europe.

Long-term leasing of construction equipment also presents opportunities for U.S. construction equipment firms. However, current legislation governing leases does not adequately ensure lessor rights and requires further review. Leasing of earthmovers, bulldozers, small forklifts, etc. -- particularly in support of hydrocarbon production and pipelines -- can be a commercially viable business. Leasing will become increasingly prevalent over the 2001-2003 period, when major design and construction sub-contractor tenders for hydrocarbon and pipeline work are expected to be announced.

		<u>1999</u>	<u>2000</u>	<u>2001 (e)</u>
A.	Total Market Size	224.5	219.1	320
B.	Total Local Production	213.55	156.4	130.3
C.	Total Exports	0.95	1.94	0.8
D.	Total Imports	11.9	64.6	17.7
E.	Imports from the U.S.	1.54	2.01	n/a

Note: Estimates based on information from the State Statistics Committee and the State Customs Bulletin.

7. Food Processing and Packaging Machinery FPP

The potential for development of the food processing industry exists, but many hurdles must be overcome. A wide variety of crops are grown in Azerbaijan, such as fruits (apples, cherries, grapes, olives, lemons, persimmons, melons, raspberries, strawberries, currants, plums, peaches, pears, pomegranates and tomatoes), vegetables (potatoes, carrots, beets, cabbage, cucumbers, and onions), grains (wheat, maize, barley), tea leaves, and nuts. As a result, Azerbaijan can become a supplier of processed and packaged food products throughout the former Soviet Union, but it lacks the processing and packaging technology to achieve this potential.

Only two out of the 43 canning factories in Azerbaijan are operating, and they produce primarily tomato paste, natural fruit juices, and apple concentrate. They do not work to full capacity, and their equipment is outdated and needs replacement. They continue to use glass jars and bottles instead of plastic containers or tetrapacks that are less susceptible to damage in transit, have greater shelf-life, and store better. This industry has been targeted for privatization. However the Ministry of Economic Development will need to properly structure the assets prior to privatization to attract any serious investor interest. Greenfield investment may be more profitable.

There are two major areas in which processing takes place, Quba (in the North) for fruits and Lankaran (in the South) for citrus fruits/and vegetables. As crops are seasonal, the two operating canneries process more than one type of crop. Firms from Germany, Italy, Netherlands, Sweden, France, Finland, Russia, Turkey, and Iran are the leading importers of food processing and packaging equipment. U.S.-manufactured food processing and packaging equipment have not established any real market presence in Azerbaijan.

American manufacturers of food processing and packaging equipment of small capacities, interested in increasing their export sales, should e-mail their company and product profiles to the Project Management Unit (PMU), Ministry of Agriculture and Food Supplies (see Chapter XI, Appendix E), with a copy to the US Embassy Commercial Service. This unit is authorized by the GOAJ to send tender announcements to registered companies regarding needed equipment. Further information is available from the U.S. Embassy Commercial Service in Baku.

		<u>1999</u>	<u>2000</u>	<u>2001 (e)</u>
A.	Total Market Size	18.8	5.12	n/a
B.	Total Local Production	0	0	0
C.	Total Exports	0.128	0.393	0.012
D.	Total Imports	18.9	5.12	1.4
E.	Imports from the U.S.	0	0	0

8. Best Prospects for U.S. Agricultural Exports:

Azerbaijan's agricultural sector has undergone a dramatic transition since the breakup of the collective/state farm system and the privatization of agricultural lands starting in 1996. Today, 98 percent of the nation's agricultural land is in private hands. Farmers have moved away from traditional crops such wheat and cotton in favor of fruit and vegetables. These crops require less fertilization and mechanization, can be cultivated in small plots, and can be marketed directly. As a result, the nation's demand for imported grains is growing, and cotton is no longer a significant source of foreign exchange revenue. Azerbaijan faces an annual wheat deficit of 500,000 tons. To compensate for its shortfall, the country traditionally imports wheat from Russia, Ukraine, and Kazakhstan. Pending approval of GSM-102 accreditation of Azeri banks, U.S. firms could break into this small but lucrative market via and dramatically increase U.S. market share.

The Commodity Credit Corporation (CCC) of the U.S. Department of Agriculture (USDA) administers export credit guarantee programs for commercial financing of U.S. agricultural exports. The program encourages exports to buyers in countries where credit is necessary to maintain or increase U.S. sales, but where financing may not be available without CCC guarantees. Under this program, CCC does not provide financing, but guarantees payments due from foreign banks. For the past two years, CCC has offered a \$5 million GSM-102 credit guarantee program for Azerbaijan. This program has not been used by U.S. exporters to date as no Azeri banks have been accredited, but a decision on GSM-102 accreditation of several Azeri banks is expected in the fall of 2001.

Under the GSM-102 program, CCC will consider only those foreign financial institutions that are capable of effecting payment in one of two ways. First, via an irrevocable letter of credit drawn on a Western bank, issued in favor of the exporter, specifically stating the deferred payment terms under which the foreign bank is obligated to make payments in U.S.

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dollars as such payments become due. Alternatively, such a letter of credit is supported by a related obligation specifically stating the deferred payment terms under which the foreign bank is obligated to make payments to the exporter, or the exporter's assignee, in U.S. dollars as such payments become due.



CHAPTER 6: TRADE REGULATIONS, CUSTOMS, AND STANDARDS

A. Trade Barriers, including Tariffs, Non-tariff Barriers and Import Duties

There are several barriers to trade with Azerbaijan that makes doing business here difficult. Non-tariff barriers include a weak and unpredictable legal regime, arbitrary tax and customs administration, clear conflicts of interest in regulatory/commercial matters, and corruption. The GOAJ's inadequate IPR protections amount to a trade barrier. Alcoholic beverages and tobacco products are subject to both quantitative restrictions and import licenses. In April 2001, the government published a decree banning the export of scrap metal. In addition to customs duties, an 18 percent VAT on certain imports was introduced January 1, 2001. Goods from CIS countries (except Kazakhstan) are assessed VAT in their country of origin, not in Azerbaijan.

On April 12, 2001, the GOAJ introduced a new tariff schedule, replacing the previous streamlined tariff regime that was established in 1997 and updated in 1999. All imports are subject to duties at uniform rates of 15, 5, 3, or 0.5 percent of the declared customs value, or are duty free. Most goods are subject to the 15 percent maximum.

The following non-exhaustive list provides import tariff rates for a range of goods under the new schedule:

<u>Category</u>	<u>Percent</u>
Live animals (except breeding stock)	15
Grain products	5
Ores	0.5

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Organic and non-organic chemical products	mostly 0.5
Fertilizer	0.5
Seeds	0.5 & 3
Tobacco	15
Wood and wood products	mostly 10
Paper and cardboard products and wastes	0.5, 3, 5, 10, 15
Textiles	0.5
Cotton	15
Chemical fibers and fabric	5 & 10
Ferrous metals	5
Articles from ferrous metals	10 & 15
Copper	0.5
Articles from cooper	5, 15
Nickel	0.5
Lead	0.5
Zinc	0.5
Tin	0.5
Some types of vehicles	mostly 15
Ships	mostly 0.5
Medical equipment	0.5
Syringes	0.5

B. Customs Valuation

Valuation of goods imported into Azerbaijan is based on the declared value that appears on the invoice. Import duties of 0, 3, 5, 10 and 15% are then assessed accordingly, based on the Customs Tariff schedule of the Azerbaijan Republic.

C. Import Licenses

The GOAJ requires import licenses for food products of animal origin. The State Veterinary Committee (SVC) issues these licenses (contact numbers are provided in Chapter XI, Appendix E). Large scale satellite dishes and other communications equipment must receive the permission of the Ministry of Communications. Please check with the U.S. Embassy Commercial Service in Baku for further information on import licensing requirements.

D. Export Controls

Azeri government regulations prohibit the export of weapons, explosives, radioactive materials and wastes, narcotics, and psychotropic drugs. In addition, it regulates the export of strategic commodities produced in Azerbaijan. At present, strategic commodities include: petroleum products, cotton, electric power, and

non-ferrous metals. Potential buyers of such commodities must get the approval of the State Commission on Supervision of Foreign Economic Relations.

E. Import-Export Documentation

Importers are required to provide the Customs Authority with:

1. Signed import contract (and contract number);
2. Customs declaration specifying what goods are being imported;
3. Invoice for the goods imported;
4. Permission from the relevant ministry if imports include pesticides, medicines, or weapons and ammunition;
5. Bill of lading;
6. Sales invoice and packing list;
7. Certificate of origin; and
8. Certificate of quality of the imported merchandise.

Exporters are required to provide the State Customs Committee with:

1. Document verifying the legal status of the business entity;
2. Legal entity's code determined by the State Statistics Committee;
3. Copy of the contract (and contract number);
4. Certificate of origin of the product being exported;
5. Document issued by an authorized bank on the pre-payment or opening of a letter of credit for the exported product;
6. Permission of the Cabinet of Ministers if exporting weapons, ammunition, nuclear technology and explosives, and permission of appropriate ministries if exporting certain animal bones, medicinal raw materials, information about natural resources, inventions, precious stones, and antiques;
7. Sales invoice and packing list; and
8. Customs declaration.

F. Temporary Entry

Personal items, tools of trade, and business samples may be imported with little problem. Goods to be displayed or exhibited may be brought in as temporarily imported goods for a period of time, but must be re-exported within the time stipulated to avoid paying import duties and taxes. U.S. firms planning to exhibit at major trade exhibitions in Azerbaijan need to work closely with the show organizer well in

advance to ensure timely and proper temporary declaration of goods to be exhibited. If sending samples via express mail, firms should contact the local office of the courier service

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to get advice on declared customs value to avoid protracted and costly problems with Customs officials. Business representatives traveling with laptops must declare them at time of entry, but have generally not encountered problems bringing in or taking out cellular phones or laptops. Temporary entry forms covering laptops must be surrendered on departure.

G. Labeling and Marking Requirements

Labeling and marking requirements are as follows:

- Origin;
- Ingredients, if applicable;
- Production and expiration dates, if applicable; and
- Warnings on improper product use, if applicable.

No language requirements currently exist under Azerbaijani law. From a practical point of view, U.S. suppliers should label instructions in Azeri, Turkish, or Russian to provide consumers with product information.

H. Prohibited Imports

The GOAJ prohibits the import of radioactive materials and wastes, narcotics, and psychotropic drugs. Special permission is required to import weapons, explosives, and certain radioactive equipment used in the oil industry.

I. Standards

Azerbaijani standards remain largely based on those of the defunct Soviet State Committee in Standards, though the oil and gas industry has made progress in bringing ISO 9000 standards to energy development. Outside of the energy sector, ISO-9000 is not widely known except in the IT and related sectors. Azerbaijan uses the metric system for weights and measures. Small appliances use European standard plugs and electric connectors. The State Veterinary Committee (SVC) is responsible for ensuring basic health standards on imported food and animal products. State plant quarantine inspection laws ensure standards on products that may carry diseases, pests and/or weeds that have quarantine significance for Azerbaijan. Goods subject to inspection include plants, certain foodstuffs, wood, and leather.

J. Trade Zones/Warehouses

The Azerbaijan Customs Code provides for the establishment and operation of bonded warehouses within Foreign Economic Zones (FEZs), however as of August 2001 no bonded warehouses are in operation. While legislation in the mid-1990s was to establish a FEZ in Sumgait, this project was never implemented. Discussions on their establishment continue with Customs.

K. Special Import Provisions

Imported goods may be kept in a Customs warehouse for up to three years duty-free. Once the goods are released from the warehouse, they are subject to all applicable duties and taxes. The Customs warehouse will also assess charges for shipment storage. The rate for this charge should be negotiated with the Customs warehouse prior to consignment to the warehouse to avoid any misunderstanding.

Goods imported into Azerbaijan for processing and then re-exported are subject to normal duty and taxes at the time of importation. As soon as processing has been completed and the goods are re-exported, a draw-back procedure can be initiated to recover the taxes and duty paid. There is no formal procedure for submitting an application. Customs establishes the time for the processing and re-export of the goods, usually within two years. In addition, Customs may also stipulate a minimum amount of finished product to assure that the imported goods are utilized for the purpose intended.

Provisions for the importation of goods and equipment are an integral part of PSAs. Goods, tools, equipment, supplies, and services necessary for successfully carrying out the objectives of the PSA are generally exempt from import duties and taxes. By extension, foreign firms registered to do business in Azerbaijan and who provide services for contractor parties (CP) or foreign subcontractors (FSC) participating in PSAs may also be exempt from duties and VAT on imported goods and equipment relevant to their work.

The following is a non-exhaustive list of items exempt from import duties:

- Films for x-rays; medicine for veterinary use; biological preparations and veterinary supplies; packaged baby food; most pharmaceutical goods; prostheses; natural gas; electric power; powder for military purposes; fireworks, rockets, pyrotechnic articles for military purposes; military ships and spare parts; tanks and similar military machines; weapons; wheelchairs and spare parts.
- Goods and property for official use by diplomatic missions and equivalent missions in Azerbaijan and for private use by diplomatic and administrative employees of these missions and their resident family members.
- Humanitarian aid for free distribution delivered by properly registered humanitarian organizations and by other legal entities and physical persons under the permission of State Commission on International Humanitarian Aid.
- Property to be used as contribution by a foreign investor to the charter fund of a joint venture or for the creation of an enterprise fully owned by a foreign investor.

- Goods delivered to Azerbaijan for a limited term and to be returned unchanged to the country of origin under pre-defined conditions (VAT shall be paid at entrance and reimbursed at exit).
- Property of foreign employees of enterprises with foreign investment in Azerbaijan for private use.

Customs duties do not apply to goods imported under bilateral free trade treaties between Azerbaijan and foreign states. Importers are subject to the payment of a customs processing fee in the amount of 0.015 percent of the declared customs value or a minimum of 16,500 manat, whichever is greater. However, it has been reported that the rate of 0.015 percent has not been applied consistently at all port facilities in Azerbaijan. This fee is payable regardless of whether the goods are exempt from customs duties or VAT. U.S. firms should be forewarned that customs clearances can be problematic, time-consuming, and bribes are often sought from underpaid Customs officers.

L. Membership in Free Trade Arrangements

Azerbaijan has signed bilateral free trade agreements with seven states of the former Soviet Union, although the trade liberalizing provisions of most of the agreements have not yet taken effect. Azerbaijan signed agreements with: the Russian Federation (September 30, 1992); Moldova (May 26, 1995); Ukraine (July 28, 1995); Turkmenistan (March 18, 1996); Uzbekistan (May 27, 1996); Georgia (June 10, 1996); and Kazakhstan (June 10, 1997). Signatories agree not to apply duties, taxes and charges that equally affect exports and imports between them. Currently, Azerbaijan does not apply customs duties to imported goods from Georgia, Kazakhstan, or Ukraine.

Azerbaijan joined the agreement on the establishment of a free trade zone within the CIS on April 15, 1994. It provides that signatories agree not to apply duties, taxes and charges on exports and imports between them. This agreement and subsequent amendments have not been implemented.

In July 1999, Azerbaijan entered into a Partnership and Cooperation Agreement with the European Union that is designed to make legislation in Azerbaijan compatible with the EU body of law. This includes the protection of intellectual property rights, assets and investments, and corporate and personal belongings against abuse. It also awarded Azerbaijan most favored nation (MFN) status with the EU. In addition, the GOAJ is currently seeking WTO membership.

CHAPTER 7: INVESTMENT CLIMATE

Ten years after gaining its independence Azerbaijan is a country in transition with significant prospects and a difficult investment climate. In the past seven years, the GOAJ has successfully executed a strategy to develop its oil

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and gas resources and achieve macroeconomic stability. Much work remains to be done, however, to produce prosperity for the country's population of eight million. Azerbaijan's long running conflict with Armenia over Nagorno-Karabakh has left the country with hundreds of thousands of refugees and internally displaced persons (IDPs) for more than a decade and constitutes an enormous burden on future economic and democratic development.

In early 2001, the GOAJ completed initial steps on a series of reforms designed to make this transition economy more market-oriented and to improve governance. In July 2001, the IMF approved a new, three-year Poverty Reduction and Growth Facility (PRGF) program. Objectives of this program include increasing the transparency and efficiency of operations at the Ministry of Taxation and the State Customs Committee and the development of a comprehensive anti-corruption initiative. It will also support banking and energy sector reform, accelerated privatization, improvements in civil service operations and delivery of social services, and judicial and regulatory reform. The GOAJ is also negotiating a second Structural Adjustment Credit (SAC-II) with the World Bank related to public sector restructuring. If completely implemented, the reforms envisaged by the IMF and World Bank programs could substantially improve Azerbaijan's investment climate. Effective implementation of goals Azerbaijan is setting with these institutions will be key to developing a rules-based economy which will attract investment. Creating a stable and predictable business environment is especially crucial for attracting investment to the non-energy sector. At present, however, Azerbaijan remains a very challenging country in which to do business.

A. OPENNESS TO FOREIGN INVESTMENT

The government officially welcomes foreign direct investment, realizing that it plays a vital role in development of the country's economy. Doing business in Azerbaijan, however, is challenging and problematic. During the past seven years, the GOAJ has attracted significant amounts of foreign investment to develop further its energy sector. Government bureaucracy, weak legal institutions and predatory behavior by politically-connected monopoly interests have severely hindered investment outside of the energy sector.

The major laws governing foreign investment include the "Law on Protection of Foreign Investments" (1992), the "Law on Investment Activity" (1995), the "Law On Privatization of State Property" and a presidential decree "On Approval of the Second Program of the Privatization of State Property" (August 10, 2000). Azerbaijan's Foreign Investment Agency was absorbed in April 2001 into a new Ministry of Economic Development, which is to lead the GOAJ's efforts in promoting investment. The GOAJ has also announced plans to establish an Investors Council to support increased foreign and domestic investment in Azerbaijan.

The Law on Protection of Foreign Investments permits foreign direct investment (FDI) in any activity open to a national investor unless prohibited by law. Prohibited areas include those relating to national security and defense. Other key sectors, including energy and mobile telephony, are carefully controlled by the government. Practically, speaking, private

investment can only be made through joint ventures with a state partner. Investment in the oil and gas sector has in the past been made by concluding a Production Sharing Agreement (PSA) with the State Oil Company of Azerbaijan (SOCAR) that is subsequently ratified by parliament. Although the establishment of a new Ministry of Fuel and Energy is expected to change this procedure, its structure and responsibilities were approved only in early September 2001 and uncertainty about future procedures remains. Another limitation on FDI is the National Bank of Azerbaijan's current limit on participation of banks with foreign ownership to 30 percent of the commercial banking market.

Under Azerbaijani law, foreign investors may participate in the Azerbaijani market through joint ventures with local companies, establishment of subsidiaries wholly owned by foreign investors, and representative offices and branches of foreign legal entities. The Law on Protection of Foreign Investments provides that the GOAJ will treat foreign investors in a manner "not less favored" than the treatment accorded to local investors. This law provides for repatriation of profits, revenues, and other investment-related funds so long as applicable Azerbaijani taxes have been paid. The law also provides a ten-year grandfather clause in the event new legislation less favorable to the foreign investor is adopted. However, this provision does not apply to changes in tax legislation.

While the GOAJ employs no formal screening mechanisms for general foreign investment, the process of registering an enterprise with the Ministry of Justice in fact serves as a screening process. Although by law required only to determine that documents of enterprises seeking registration are in order, the Ministry operates in a non-transparent and sometimes arbitrary way. Credible reports indicate that ministry officials make extra-legal determinations of whether individual foreign investments are of an appropriate nature before making decisions about registration. Some investors have alleged that they have received demands for bribes when attempting to register their enterprises.

From 1996 to 1998, the GOAJ carried out a privatization program focused on privatization of small and medium-sized enterprises. The president's August 2000 decree regarding the second privatization program provides for case-by-case sales of some of Azerbaijan's largest state-owned enterprises. In March 2001 the president issued decrees identifying

In March 2001 the president issued decrees identifying approximately 450 enterprises that are to be privatized during the second program.

approximately 450 enterprises that are to be privatized during the second program. Foreign investors may participate, though it is not yet clear to what extent vouchers and options purchased previously by foreigners will play a role in these and other privatizations. In July 2001, a presidential decree expanded the list of enterprises which may be privatized via investment competitions; previously only joint stock companies could be privatized by this mechanism. The decree appears to be aimed at making the privatization process more transparent.

The GOAJ is seeking long-term management contracts rather than outright privatization to transfer some of the largest state-owned enterprises into private management and, the

government believes, help restructure these firms for future privatization. In March 2001, the GOAJ awarded a 25-year management contract of a state-owned aluminum joint stock company, Azerbaijan Aluminium, to the Dutch firm Fondel Metal. As of September 2001, the GOAJ is attempting to finalize award of another long-term management contract for the Baku electricity distribution network. Placing state-owned utilities in private management has proven to be a very difficult process, as tariff, service termination and other regulatory issues have not been adequately addressed by the GOAJ. The former Ministry of State Property (incorporated into the new Ministry of Economic Development in April 2001) established a web site with information about ongoing privatizations available in English, Azeri, and Russian (www.msp.gov.az) in an attempt to open up the process and make it more transparent. Participation in the privatization program continues to be hindered, however, by a lack of resources to properly prepare assets for privatization and insufficient information about the assets of enterprises to be privatized.

In the telecommunications sector, the Ministry of Communications has retained a 51 percent share in most telecommunications enterprises. In March 2001, a presidential decree identified nine enterprises and institutions of the Ministry of Communications for future privatization. The Ministry of State Property also announced that it would begin to sell the state's shares in telecommunication sector joint ventures during the second half of 2001, with privatization of wholly state-owned telecommunications enterprises to follow.

B. CONVERSION AND TRANSFER POLICIES

Azerbaijan has a liberal exchange system, and, in general, there are no restrictions on converting or transferring funds associated with an investment into freely usable currency and at a legal, market-clearing rate. Conversion is carried out through the Baku Interbank Currency Exchange Market and the Organized Interbank Currency Market. Cash exchange is carried out at numerous currency exchange points. No difficulties exist in obtaining foreign exchange. The average delay for remitting investment returns is two to three business days. There have been no recent changes in, nor are there plans to change, remittance policies that would tighten access to foreign exchange for investment remittances. The GOAJ has occasionally frozen bank accounts of companies that it believes have failed to meet their tax obligations.

C. EXPROPRIATION AND COMPENSATION

The Law on Protection of Foreign Investments protects foreign investors against nationalization and requisition except under certain specified circumstances. Nationalization of property to prevent harm to the population or damage to state interests is possible by parliamentary resolution. Requisition by a decision of the Cabinet of Ministers is possible in the event of natural disaster, epidemic, or other extraordinary situation. In the event of nationalization or requisition, foreign investors are entitled by law to prompt, effective and adequate compensation. There have been no cases of nationalization or requisition against foreign firms in Azerbaijan.

D. DISPUTE SETTLEMENT

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Dispute settlement mechanisms are improving in Azerbaijan but effective means of protecting and enforcing property and contractual rights are not yet assured. While the GOAJ does not officially interfere in the court system, in practice courts are weak, judges often inexperienced, and progressive new tax and other economic legislation poorly understood. The Economic Court, which has jurisdiction over commercial disputes, is weak, widely regarded as corruptible, and its decisions are often inconsistent. A new Civil Procedure Code, effective September 1, 2000, sets forth basic civil legislation.

Dispute settlement mechanisms are improving in Azerbaijan but effective means of protecting and enforcing property and contractual rights are not yet assured.

Changes in Azerbaijan's legal framework have made arbitration a potentially more effective mechanism to settle disputes. In February 2000, a law "On International Arbitration" came into force that provides for the possibility of local arbitration in international commercial matters. In May 2000, the parliament ratified Azerbaijan's accession to the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards. The Convention provides for binding international arbitration of investment disputes between foreign investors and the state. The August 2001 bilateral investment treaty between the U.S. and Azerbaijan provides U.S. investors with recourse to the International Center for the Settlement of Investment Disputes. Azerbaijan is a party to the World Bank Convention on the Settlement of Investment Disputes between States and Nationals of Other States and is also a member of the Multilateral Investment Guarantee Agency (MIGA). The new Civil Procedure Code also provides that foreign arbitral awards may be enforced in Azerbaijan so long as they do not contravene legislation or public policy, and if reciprocity exists.

Investment disputes have arisen in Azerbaijan when a foreign investor's success threatens favored, politically-connected interests. Resolution of such disputes has occasionally reportedly involved the foreign investor acquiring a local partner with strong ties to influential persons in the government.

E. PERFORMANCE REQUIREMENTS AND INCENTIVES

Azerbaijan has not yet developed effective incentives to attract foreign investment, other than the incentives provided by Production Sharing Agreements in the oil and gas sector. Performance requirements are not imposed on new investment, but investors who participate in the privatization process of enterprises often assume specific obligations regarding future investment and employment. Foreign investors are not required to purchase from local sources or export a certain percentage of output. Except for those state monopolies identified in section 1 above, there is no requirement that nationals own shares in enterprises. Investors in PSAs assume specified obligations and requirements as provided by the PSA.

There are no legal requirements for employment of host country nationals. Employers wishing to hire foreign workers in Azerbaijan must obtain a license from the Ministry of Labor. Foreigners who wish to work in Azerbaijan must register with local authorities at their place of residence and obtain work permits from the Ministry of Labor. Heads of representative offices and branches of foreign legal entities and their deputies do not require work permits.

F. RIGHT TO PRIVATE OWNERSHIP AND ESTABLISHMENT

Under Azerbaijani law, foreign investors may engage in investment activities not prohibited by law. Private entities may freely establish, acquire, and dispose of interests in business enterprises. In practice, access to markets, credit and other business operations is often impeded by licensing and other regulatory requirements and by politically-connected business interests that can mobilize the powers of the state to their advantage. In sectors of interest to certain senior government and political figures, competition is not tolerated.

Legislation regulating real property rights include the "Land Code of the Republic of Azerbaijan (1999)", the "Law on Land Reform (1996)", the "Law on Land Leasing (1999)", and the "Law on Land Market (1999)." Azerbaijani citizens and Azerbaijani legal entities, including enterprises with foreign investment, can legally own, buy, sell, and trade property. Foreign citizens and enterprises may lease land, but cannot own it.

G. PROTECTION OF PROPERTY RIGHTS

In the mid-1990s, Azerbaijan began implementing a national system for registering and protecting intellectual property rights with the assistance of the World Intellectual Property Organization (WIPO), of which it is a member. Azerbaijan enacted modern copyright legislation ("Law on Copyright and Related Rights") in 1996, patent legislation ("Law on Patents") in 1997, and trademark protection legislation ("Law on Trademarks and Geographic Names") in 1998. Azerbaijan is a party to the Convention Establishing the World Intellectual Property Organization, the Paris Convention for Protection of Industrial Property, and the Berne Convention for the Protection of Literary and Artistic Works. In mid-July 2001, Azerbaijan became a party to the Geneva Phonograms Convention. The GOAJ reports that it is working with WIPO on a draft law "On Protection of Layout Designs and Integrated Circuits," which it intends to submit to parliament in 2001.

In practice, however, there is little enforcement of intellectual property rights. Pirated software, cassettes and videotapes, as well as knock-off clothing and luxury items, are widely available in Azerbaijan. In 2001, Azerbaijan remains on the U.S. government's "Watch List" of countries that fail to provide adequate and effective protection for intellectual property rights of American companies, as specified by Section 301 of the Trade Act of 1974. Azerbaijan is not yet a member of the World Trade Organization.

H. TRANSPARENCY OF THE REGULATORY SYSTEM

Although the GOAJ has improved its regulatory system in the past several years, it remains characterized by weak administration, a lack of transparency and widespread allegations of corruption. The lack of transparent policies and effective laws to establish clear rules and foster competition are particularly serious impediments to investment. While Azerbaijan has adopted new laws that conform in varying degrees to international standards, including a new tax code that went into effect on January 1, 2001, effective implementation and administration will be key to creating a transparent, rules-based economy capable of attracting and retaining investment. Under the new IMF program, the GOAJ is committed to adopting regulations for implementation of the new tax code by September 2001, and the IMF and World Bank list improving governance among their priorities in this country.

Information on decisions implementing laws and regulations is impossible to obtain. Ready access to government rules and regulations is an impediment to doing business. While laws and decrees are usually published in one of the country's official newspapers, implementation is often delayed while regulations are developed. Those regulations often are not published or distributed. Many persons doing business in Azerbaijan complain that bureaucratic procedures contribute to long delays in gaining necessary permits and licenses. Consolidation of five economic ministries and agencies into a new Ministry of Economic Development may address some of these issues. A proposed Investors Council could help identify and remove regulatory impediments to investment and business operations.

I. EFFICIENT CAPITAL MARKETS AND PORTFOLIO INVESTMENT

The banking sector consists of two large state banks, the International Bank of Azerbaijan (IBA) and United Universal Bank (UUB); 13 foreign banks and subsidiaries; and approximately 40 local private banks. Banking operations are governed by the 1996 law "On Banks and Banking Activities in Azerbaijan." There is a legal limitation of foreign ownership in the banking sector to 30 percent on an aggregate basis. According to the National Bank of Azerbaijan (NBA), in July 2001 total assets of Azerbaijan banks were 3,254.1 billion manat, equivalent to \$698 million. Non-performing debts within the banking sector totaled 392.3 billion manat, equivalent to \$84.2 million.

The GOAJ has stated its intention to sell twenty percent of IBA to the European Bank for Reconstruction and Development (EBRD) and eventually to reduce its own share of IBA to 5 percent. Negotiations with EBRD have been very slow. The GOAJ has also announced intentions to privatize UUB, which was established from the assets of three abolished state banks. UUB is currently prohibited from engaging in lending operations. Azerbaijan's bankruptcy law does not function effectively. Under the IMF's Poverty Reduction and Growth Facility (PRGR) program, the GOAJ has agreed by March 2002 to review the bankruptcy law and possibly submit revisions to the law to parliament.

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The NBA has taken steps to improve bank supervision and raise capital requirements. Minimum statutory capital requirements since January 1, 2000 are \$2 million for existing banks and \$5 million for new banks. Bank consolidation, which began in the mid-1990s when Azerbaijan had 250 small, illiquid banks, continues. In February 2001, the NBA implemented a SWIFT-based Real Time Gross Settlements system. It is now developing a low-value payments system. The Baku Interbank Currency Exchange (BICEX) carries out interbank auctions of foreign exchange. Treasury bill auctions are conducted by the Baku Stock Exchange, which was established in the fall of 2000. Since then, the number of participants and volume of transactions have increased, but this is not yet a truly competitive market. The GoAj has not announced any official plans to tap international capital markets in the near future, however there has been some discussion of issuance of an exploratory bond to establish a benchmark or to facilitate access to the bond markets for private investors.

IBA and HSBC British Bank of the Middle East are the two banks most frequently used by foreign enterprises. At the end of 2000, IBA reported assets exceeding \$600 million. IBA, which handles most GOAJ accounts, reportedly controls 75 percent of payments made domestically and internationally in hard currency, as well as 50 percent of payments made in manats.

In July 2001, Fitch IBCA upgraded Azerbaijan's long term foreign currency rating from B+ to a BB, reflecting the progress Azerbaijan has made in the past year. Implementation of the State Oil Fund and agreement with the IMF on a new Poverty Reduction and Growth Facility program were key macroeconomic accomplishments. Oil Fund assets totaled over \$430 million in August 2001. The regulations establishing the Fund provide that expenditures in 2001 will be limited to Fund operating costs. Future expenditures in infrastructure, social and other priority investments should not exceed interest earnings for a number of years to come.

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J. POLITICAL VIOLENCE

Serious political violence has rarely occurred in Azerbaijan during recent years and has never been directed against U.S. or other foreign investors. Parliamentary elections in November 2000 and re-run elections in eleven districts in January 2001 proceeded without violence. Demonstrations by opposition groups protesting election irregularities were largely peaceful. Protests over energy shortages and other grievances in the regional city of Sheki in November 2000 resulted in minor property damage and minor injuries to protestors and police. A number of these protestors were subsequently sentenced to several years in prison. Small demonstrations and brief roadblocks occurred occasionally during the 2000-2001 winter months in several areas of the country in protest against energy shortages, the parliamentary elections and other grievances. A group representing invalid veterans of the war with Armenia carried out protests in Baku during early 2001 seeking increases in

pensions and assistance. The protests resulted in minor injuries to some protestors and police.

K. CORRUPTION

Corruption is a significant deterrent to investment in Azerbaijan, especially in the non-energy sector. Laws and regulations that exist to combat corruption are not effectively enforced. In June 2001, this country tied with three others to rank 84th out of 91 countries surveyed in a corruption perceptions index compiled by Transparency International. Corruption appears most pervasive in the regulatory, tax, customs, and dispute settlement systems. Throughout the country, problems in the quality, reliability and transparency of governance, as well as abuse of the regulatory system and poor contract enforcement, significantly impede the ability of many companies to do business in Azerbaijan and have driven many companies, including some major Western firms, from the market. Politically-connected businesses appear to have benefited from government regulatory and other decisions to achieve effective control over several lucrative sectors of the economy, including cotton, tobacco, and imported food products.

The GoAJ is aware that corruption is a serious problem. On June 8, 2000, President Aliyev issued a decree on combating corruption. Two working groups established to draft legislation that would strengthen the government's ability to tackle corruption have been at work for over a year, but no results have appeared. In February 2001, the GOAJ significantly raised the salaries of some 25,000 government employees in an effort to strengthen public administration and reduce incentives for corruption. In a July 2000 meeting with the American Chamber of Commerce, President Aliyev publicly acknowledged the conflict of interest present when state enterprises responsible for regulating industries compete commercially with the private sector. His recent establishment of new Ministries of Fuel and Energy and of Economic Development, intended to separate commercial and regulatory interests in energy and other sectors, should prove helpful if these ministries are given the necessary authority. A focus of current IMF and World Bank work in Azerbaijan is combating corruption and improving governance, including restructuring of the State Customs Committee and reform of its operations. Azerbaijan is not a signatory of the OECD Convention on Combating Bribery.

L. BILATERAL INVESTMENT AGREEMENTS

On October 18, 2000, the U.S. Senate ratified the Treaty Between the Government of the United States of America and the Government of the Republic of Azerbaijan Concerning the Encouragement and Reciprocal Protection of Investment (commonly known as a "bilateral investment treaty" (BIT). The GOAJ and U.S. exchanged instruments of ratification on July 3, 2001, and the treaty entered into force on August 2, 2001.

In addition to the above agreement, Azerbaijan has bilateral investment protection agreements with the following countries:

France, Georgia, Germany, Great Britain, Iran, Italy, Kazakhstan, Kyrgyzstan, Lebanon, Moldova, Pakistan, Poland, Turkey, Ukraine, and Uzbekistan.

M. OPIC AND OTHER INVESTMENT INSURANCE PROGRAMS

The Caspian Finance Center, located at the U.S. Embassy in Ankara, Turkey, is a one-stop shop for U.S. companies seeking to do business in the Caspian region. Representatives of the Overseas Private Investment Corporation (OPIC), and the Trade and Development Agency (TDA) can provide advice on pre-project, trade and project finance. OPIC has not yet provided political risk insurance or financing on projects in Azerbaijan, although it provided funding to the Caucasus Fund, which seeks investment opportunities in Azerbaijan, Armenia and Georgia. As part of a restructuring, the Caucasus Fund is scaling back operations in the Caucasus to manage the Fund out of the U.S.

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The Multilateral Investment Guarantee Agency (MIGA), a World Bank institution, offers investment insurance in Azerbaijan. As of June 2001, MIGA's outstanding portfolio in Azerbaijan included five contracts of guarantee in the financial, infrastructure, and manufacturing sectors, with a total of \$40.6 million in gross exposure.

N. LABOR

Azerbaijan has an abundant supply of qualified, trained technicians and skilled and unskilled laborers at attractive rates. The collapse of the old Soviet industrial sector in this country during the 1990s resulted in large numbers of Azerbaijanis becoming unemployed or underemployed. Although the GOAJ claims that fewer than two percent of the work force is registered as unemployed, international organizations estimate the actual rate of unemployment at ten to twenty percent or more. As of January 2001, the minimum monthly wage was set at 27,500 manats, approximately \$6 at the current exchange rate. Labor relations are regulated by a Labor Code that took effect in July 1999. The workweek is generally forty hours, the right to strike exists, and industrial strikes occur occasionally. Azerbaijan is a member of the International Labor Organization and has ratified more than 50 ILO Conventions. The GOAJ is currently engaged with the World Bank in a program to reform the state pension system.

O. FOREIGN DIRECT INVESTMENT STATISTICS

During the period 1994-1999, Azerbaijan received more foreign direct investment (FDI) per capita than any country in the former Soviet Union, with average annual FDI per capita of \$82 for that period. As work on the Baku-Tbilisi-Ceyhan main oil export pipeline and development of Azerbaijan's oil and gas fields intensifies, foreign investment is projected to increase from the approximately 15 to 25 percent of GDP in the late 1990s to 50 percent of

GDP in 2004. Since 1995, over 85 percent of all investment in Azerbaijan has been financed from abroad. Over 75 percent of that investment has been in the form of foreign direct investment.

There are no reliable data on foreign investment figures for Azerbaijan, only problematic estimates. According to the Azerbaijan State Statistics Committee, this country received foreign investment totaling \$927 million in 2000. Of that amount, \$546.1 million was invested in the country's energy sector. Non-energy sector investment in 2000, by country of origin, registered as follows:

France	\$39.3 million
Turkey	\$31.6 million
Japan	\$16.4 million
U.S.	\$11.2 million
Great Britain	\$6.8 million
UAE	\$2.8 million
Iran	\$2.9 million
Israel	\$2.4 million
Germany	\$1.7 million
Others	\$2.9 million

(Source: State Statistics Committee. Note: These figures are low, baseline estimates and should not be considered authoritative)

Non-energy investment in 2000, by sector, was reported as follows:

Industry	\$50.4 million
Construction	\$31.0 million
Trade and services	\$16.6 million
Transport/telecoms	\$17.3 million
Other sectors	\$2.7 million

(Source: State Statistics Committee. Note: These figures are low, baseline estimates and should not be considered authoritative)

For the period 1994-1999, sources of FDI have been reported by EC-TACIS as:

U.S.	28%
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UK	15%
Turkey	15%
Russia	6%
Norway	6%
Japan	3%
Germany	3%
Iran	2%
France	2%
Italy, Switzerland, Saudi Arabia and UAE	1% each
All others	16%

Foreign Investment from 1995 to 2000:*

% of GDP

2000	\$927 million	17.6
1999	\$1.091 billion	23.7
1998	\$1.472 billion	33.0
1997	\$1.307 billion	33.0
1996	\$621 million	18.8
1995	\$375 million	15.5

(Source: State Statistics Committee)

* Please note that reported Foreign Direct Investment (FDI) statistics are approximations only. Azerbaijani authorities do not calculate FDI statistics in accordance with international methodologies and estimates from other sources vary significantly. As an example, while the State Statistics Committee reported that FDI totaled \$1.091 billion in 1999, UNCTAD estimated FDI at \$691 million and EBRD at \$510 million. UNCTAD estimates that FDI/GDP from 1994-1995 averaged 15.5%.

There is no reliable statistical information regarding Azerbaijani investments abroad.

SIGNIFICANT FOREIGN INVESTORS:

Significant foreign investors in the energy sector include BP, Unocal, ExxonMobil, Devon Energy (Pennzoil), TPAO, Statoil, Lukoil, Itochu, Agip, and Chevron. Significant non-energy investment includes Garadagh Cement, Castel (brewery), Baku Steel, Coca Cola, Pepsi Cola, Azercell (mobile telephony), Bakcell (mobile telephony), Kocbank, HSBC, Baku Hotel Company, and Kenan Construction.

CHAPTER 8: TRADE AND PROJECT FINANCE

Brief Description of the Banking System

The banking system in Azerbaijan is small, weak and plays a minimal role in an economy that mostly functions on cash. Although many banks offer short-term trade financing, long term loans and mortgages are not available. It is estimated that over \$1 billion remains in cash and outside the banking sector, representing a key challenge for the Azeri government to bring this capital into the formal banking system. Azerbaijan's bankruptcy law does not function effectively. Under the IMF's PRGR program, the GOAJ has agreed to review the bankruptcy law and possibly submit revisions to the law to parliament by March 2002.

Overall, lack of credit is a key constraint to the development of private business in Azerbaijan. The existing credit supply is far too small to provide a suitable environment for the development of even small enterprises in Azerbaijan, let alone medium-sized ones. Many enterprises have no access to affordable credit given collateral requirements, short payment terms, etc. Long-term trade and project finance is rare. Rescheduling of over \$70 million in Turkish Exim Bank credits has proven to be an irritant in Turkish business development in Azerbaijan, however payments on the one US Exim transaction (two Boeing 757's) are current as of August 2001.

The banking system in Azerbaijan is small, weak and plays a minimal role in an economy that mostly functions on cash.

Outside of the donor-backed credit lines, there is essentially no bank credit exceeding 12 months. The existing donor-backed business finance facilities, while helpful, simply are not large enough to accommodate the need. Western commercial lenders are still hesitant about the region following the Russian financial crisis of August 1998. The relative volatility of the Caucasus region, combined with the undercapitalization of the Azeri banking sector, puts a further squeeze on availability and terms of trade and project finance. Azeri banks offer difficult lending terms, usually 15-25% interest in dollar-denominated loans with a maximum two-year term. Many Azeri firms simply cannot afford such loans and turn to private sources for finance. Some Azeri banks have begun lending into the nascent private sector, however, including construction, telecoms, and food processing and packaging. U.S. firms are advised to consult external sources of finance, including Exim and other development banks that can often offer trade and project finance that is either unavailable or too expensive from commercial banks.

Western businesses use two banks for their local business dealings – the International Bank of Azerbaijan (IBA), the healthiest state-owned bank, or the HSBC British Bank of the Middle East. Both the IBA and the HSBC British Bank of Middle East have correspondent relationships with U.S. banks. Of the four state-owned banks, only the IBA is a fully functioning commercial bank. The other three are technically bankrupt and currently going through a restructuring program and consequently unable to lend money.

The IBA is currently a candidate for privatization. The GoAJ has selected a financial consultant to assess the value of its assets in the bank and advise them regarding all investment proposals received. EBRD is expected to take 20 percent of the available shares in this bank.

Local private banks exist, but they account for about 15 percent of deposits in the commercial banking sector, which is dominated by the state-owned IBA. Several smaller Azerbaijani private banks -- most notably Promtekhbank, Mbank, Arkobank, and Most Bank -- are making good progress toward becoming viable, market-oriented financial institutions. Some have over three years of audited accounts done by respected Big Five firms. Letters of credit drawn on Azerbaijani banks are the preferred instruments for import/export operations. Consumer credit mechanisms are rudimentary. Most business is conducted with cash.

The Europay, MasterCard, Visa and American Express credit cards are being used at a few Western establishments and the International Bank of Azerbaijan. The IBA operates about 25 ATM machines in the Baku area. Smaller private banks such as Azerigazbank and Mostbank are also issuing credit cards, but cash remains the dominant form of payment in Azerbaijan.

Trade and Project Finance: Caspian Finance Center

In January 1999, the Caspian Finance Center (CFC) was established jointly by the Trade Development Agency (TDA), Overseas Private Investment Corporation (OPIC) and Export-Import Bank of the United States (Ex-Im Bank) to facilitate the development of commercial projects in the Caspian region, including Azerbaijan. Located in Ankara, Turkey, the CFC is staffed with representatives from the three trade and investment promotion agencies of the U.S. federal government. The main objectives of the CFC are (1) to provide support to U.S. companies and their joint venture partners; (2) to identify new projects for each of the three agencies; (3) to work closely with government officials on matters such as privatization; and (4) to support East-West transportation routes.

A description of the services provided by the CFC constituent agencies and the kinds of deals it wishes to pursue in Azerbaijan are provided in relevant sections below.

How to Finance Exports?

Letters of credit, confirmed by Western banks, are the usual method for small to medium transactions in Azerbaijan. Several Azeri banks have long-standing relationships with Western banks (see Correspondent Accounts below) that can provide confirmation of L/C's opened by the Azeri importer. Azeri firms will often grumble about the costs of L/C's. However for first-time U.S. exporters to Azerbaijan, this is the only reliable way of securing payment and the deal.

U.S. Ex-Im Bank provides finance and insurance products for overseas sales of U.S. goods and services. To qualify for Ex-Im Bank support, the product or service must have at least 50 percent U.S. content. Ex-Im Bank has co-financed projects with the U.S. Agency for International Development, the World Bank, and Regional Development Banks. Its programs often help U.S. exporters participate in development projects. U.S. Exim has thus far completed one transaction in Azerbaijan with the sale of two new 757 Boeing aircraft in 2000. Other non-traditional Exim products, such as insurance, can also bring down fees for

letters of credit and thus improve transaction terms. As of August 2001, Exim Bank is open in Azerbaijan for all public sector transactions (i.e. requiring a sovereign guarantee) but remains closed for all private sector transactions.

TDA is involved in the initial phases of the project lifecycle, providing grants to assist in planning of infrastructure and industrial projects in emerging markets. In doing so, TDA facilitates partnerships between U.S. firms and local public and private sector project sponsors. Activities funded by TDA include: full or partial financing of feasibility studies, orientation visits, training grants and various forms of technical assistance. In the recent past, TDA has provided grants for the creation of a high-altitude air traffic control system in the Caucasus; the upgrade of the Baku refineries, the Port of Dubendi, and the Azerchimia chemical complex; and agribusiness and construction orientation visits to the U.S.

OPIC's mission is to mobilize and facilitate the participation of U.S. private capital and skills in economic and social development. OPIC assists American investors through four principal activities designed to promote overseas investment and reduce associated risks:

- financing of businesses through loans and loan guarantees;
- supporting private investment funds which provide equity for U.S. companies investing in projects overseas;
- insuring investments against a broad range of political risks; and
- engaging in outreach activities designed to inform the American business community of investment opportunities overseas.

Project Finance

Currently the Asian Development Bank (ADB), the European Bank for Reconstruction and Development (EBRD) and the World Bank have operations in Azerbaijan. The major focus of these multilateral development banks' (MDBs) work to date has been to assist Azerbaijan in its transition by providing policy advice, financing for both investments and the government budget, and coordination of aid.

Currently the Asian Development Bank (ADB), the European Bank for Reconstruction and Development (EBRD) and the World Bank have operations in Azerbaijan.

The ADB began operations in Azerbaijan in 2001, aiming to reduce poverty and promote socioeconomic development. This approach requires support for sustainable economic growth and human development. ADB's operations will start with assistance to the poor, including refugees and internal displaced persons (IDPs), and with support for the non-oil sectors in order to promote economic growth and creation of more and better job opportunities. As of July 2001, the ADB does not have an office in Azerbaijan however U.S. firms can contact the U.S. Liaison Office to the ADB at the contacts below.

The World Bank is working with the Azeri government to strengthen the government's institutional capacity to manage its petroleum resources and formulate key policy changes to

accelerate reform. The World Bank maintains a local representative office in Baku, Azerbaijan. Most recent programs announced include a USD5 million loan from the World Bank to the Azerbaijani Healthcare Ministry for development of 5 hospitals in Azerbaijani regions. The World Bank's International Finance Corporation has taken equity positions in a steel factory and a soft drinks plant and maintains an active business development portfolio. U.S. firms should also review opportunities for World Bank consultancies and other tenders as an excellent method to establish a business presence in Azerbaijan. Contacts for the U.S. Liaison Office to the World Bank are listed below.

The EBRD has extensive involvement in the development of Azerbaijan's oil, transportation, banking and power distribution sectors. Although the Bank will continue to assist Azerbaijan's oil and gas sector in order to realize the long-awaited economic recovery and the fair distribution of the wealth created by this sector, it will pay special attention to a greater diversification of Azerbaijan's economy. To date, the EBRD's activities in Azerbaijan have focused on investments in the private sector and on the financing of critical infrastructure projects. Contacts for the U.S. Liaison Office to the EBRD are listed below.

The U.S. Department of Commerce's Commercial Service has Liaison Officers co-located at the headquarters of the five existing MDBs, including the ADB, World Bank, and EBRD. The Commercial Service MDB liaison officers counsel and assist U.S. businesses with obtaining information on upcoming projects and tenders, as well as providing advocacy support for U.S. companies vying for contracts at the MDBs.

List of Banks with Correspondent U.S. Banking Arrangements

Name of Azeri bank	Name of U.S. bank-correspondent
1. International bank of Azerbaijan	1. Bank of New York 2. Chase Manhattan Bank 3. The Bankers Trust Company 4. Citibank 5. American Express Bank
2. Azerigasbank	1. Bank of New York 2. Bankers Trust Company
3. Postbank	1. ABN-AMRO Bank New York 2. Citibank
4. Bank of Baku	1. Bankers Trust Company
5. Trustbank	1. ABN AMRO Bank New York
6. Respublikabank	1. ABN AMRO Bank New York
7. Kochbank-Azerbaijan	1. American Express Bank
8. Most-bank Azerbaijan	1. Bankers Trust Company
9. Rabitabank	1. Bankers Trust Company
10. Ruzubank	1. Bankers Trust Company
11. Atrabank	1. ABN AMRO Bank New York
12. Parabank	1. The Bankers Trust Company
13. Azer-Turk Bank	1. The Bankers Trust Company

	2. Citibank 3. Bank of New York
14. United Credit Bank	1. The Bankers Trust Company
15. Mbank	1. The Bankers Trust Company
16. Arkobank	1. ABN AMRO Bank New York 2. Bankers Trust Company
17. Promtechbank	1. ABN AMRO Bank New York
18. Azerdamiryolbank	1. The Bankers Trust Company
19. Bank-bank	1. Bank of New York 2. Chase Manhattan Bank
20. BUSbank	1. Bank of New York 2. Citibank
21. Ilkbank	1. ABN AMRO Bank New York
22. Amrahbank	1. First Federal Banking Corporation
23. Royal Bank of Baku	1. ABN AMRO Bank New York

CHAPTER 9: BUSINESS TRAVEL

A. Business Customs

Azerbaijan is a mix of Eastern, Western, and post-Soviet business cultures. It is advised to send a one-page letter of introduction of you and your U.S. firm in Azeri or Russian to allow your potential Azeri business partner to know more about you in advance. Meetings usually start with a firm handshake and general platitudes about your voyage, first impressions of Azerbaijan, etc. Business cards are generally exchanged during initial meetings, with one side of the card in Azeri and the other in English (or Russian) language. Azerbaijani business people almost always offer visitors tea and sweets as a form of hospitality. Azerbaijanis tend to be very polite but may appear to foreigners as vague and noncommittal about specifics in business transactions. Business takes time and patience in Azerbaijan, and much depends on the personal relationship you build with your Azeri counterpart. A post-meeting follow up letter capturing initial oral agreements and thanking your Azeri counterpart can help build trust and friendship. Azeris are generally reluctant to make appointments more than 24 hours ahead of time, so do not worry if your program is not well defined before your arrival in Azerbaijan. For more specifics on business customs, please contact the U.S. Embassy Commercial Service for "Business Travel Tips for Azerbaijan" at Baku.Office.Box@mail.doc.gov

Azerbaijanis tend to be very polite but may appear to foreigners as vague and noncommittal about specifics in business transactions.

B. Travel Advisories and Visas:

As of September 2001, there is no U.S. State Department travel advisory in place for Azerbaijan, however worldwide announcements for US citizens to exercise caution overseas

are just as applicable in Azerbaijan as in other countries. A valid passport and visa are required to enter Azerbaijan. All visitors to Azerbaijan are strongly urged to obtain a visa prior to arrival. The fee for processing the visa ranges from USD40 to USD250, depending on the validity of the visa (i.e. single or multiple entry) and the time in which it is processed. Visa applications must include a letter of invitation from an individual or organization in Azerbaijan when applying for a visa.

Visas are now also available at the Baku airport; however, the Embassy advises all U.S. passport holders to obtain a visa prior to arrival if possible. The visitor needs to submit one photograph, pay USD40, and fill out an application. The visa will be issued immediately and will be valid for thirty days for U.S. passport holders (note: visas are generally valid for seven days for other nationalities). Visitors needing to stay longer than one week must apply to the consular department of the Ministry of Foreign Affairs (Address: 4 Shihali Kurbanov St., Baku, Azerbaijan, Tel: (+994 12) 93-59-40, 93-99-19) before the temporary visa expires. An additional fee to extend the visa will be required.

Outside the U.S., visas may be obtained from Azeri embassies in Germany, Turkey, the Russian Federation, the United Kingdom, and other locations. For additional information on visa requirements, contact the Embassy of the Azerbaijan Republic, 2741 34th Street NW, Washington, DC 20008; Telephone (202) 842-0001; fax (202) 337-5911; Website: www.azembassy.com

While crime in the city of Baku has generally not been a major problem, in recent months, criminal attacks on foreigners have increased. There is a widespread perception that all foreigners carry large amounts of cash and make ideal targets. Accordingly, the Embassy advises Americans not to go out alone at night, especially in the early hours of the morning. When taking taxis, only use those that have 'BLUE' license plates. Business visitors should arrange to be met at the airport when they arrive in Baku. In general visiting U.S. businesspeople should take the same security precautions that they would take in any major American city. U.S. passport holders taking up permanent residence in Azerbaijan should register with the U.S. Embassy's Consular Section in order to facilitate timely dissemination of security related information (contacts below).

In general visiting U.S. businesspeople should take the same security precautions that they would take in any major American city.

The Embassy, working closely with the American Chamber of Commerce in Azerbaijan, participates in the Overseas Security Advisory Council (OSAC), an informal group of U.S. businesses that meets monthly to discuss security issues in Azerbaijan. Before leaving the U.S., travelers are encouraged to consult the OSAC web page at www.ds.state.gov for the most current travel advisories. Any incidents involving U.S. citizens should be reported immediately to the Embassy's consular section (tel. 98-03-35, a 24-hour number) and the local police (tel. 02).

C. Holidays:

*Prepared by the U.S. Embassy Commercial Service
Baku, Azerbaijan
E-mail: Baku.Office.Box@mail.doc.gov
www.export.gov*

The following national holidays are observed in Azerbaijan:

New Year's Day	January 1
Mourning Day	January 20
International Women's Day	March 8
Novruz Bayram	March 20/21
Victory Day	May 9
Day of the Republic	May 28
National Salvation Day	June 15
Armed Forces Day	June 26
State Sovereignty Day	October 18
Constitution Day	November 12
Day of National Revival	November 17
Universal Azeri Solidarity Day	December 31

Islamic holidays with dates to be determined by the Lunar calendar:

Gourban Bayram
Ramazan Holiday

NOTE: The U.S. Embassy is closed on all U.S. holidays as well as the above-mentioned Azeri holidays.

D. Work Week:

The Government of Azerbaijan does not restrict business hours. In general, businesses are open from 9:00 a.m. to 6:00 p.m. Monday through Friday. Many business and government offices also keep Saturday hours. Hours may vary considerably depending on the preference of the individual businessperson. Business appointments are rarely made before 10:00 a.m. Lunch is generally taken from 1:00 p.m. to 2:00 p.m.

E. Business Infrastructure

Business can be conducted in Azerbaijani, Turkish, or Russian. English is increasingly used in business, however be prepared to hire an interpreter for USD50-80 per day, depending on experience. English is not widely spoken in Baku and rarely spoken outside of Baku. Azeri and Russian lessons can be obtained readily through classifieds in the Baku Sun and other English-language newspapers listed below.

English is increasingly used in business, however be prepared to hire an interpreter for USD50-80 per day, depending on experience.

All private transactions are in cash in Azeri manat, with credit cards rarely accepted outside of major hotels and restaurants. Bring post-1990 U.S. bills in good condition, without writing or tears. There are a limited number of ATM's around the city, including an HSBC ATM near the Hyatt. A limited number of local banks will provide credit card advances for a fee (see contact details below).

The telephone system in Baku is oversubscribed and technologically inadequate, however placing a local call in Baku is generally reliable. International calls can be easily dialed but are fairly expensive. Cellular communication services are available from two cellular providers: Azericell and Bakcell. E-mail and full Internet service are available via local Internet providers. For start-up U.S. businesses that require reliable Internet contacts, it is best to order a dedicated ISDN line to ensure smooth communications. The Azerbaijani postal system is functional but not secure and it is not recommended to use this system for outgoing or incoming international correspondence. U.S. courier firms, such as DHL, PXPost, UPS and FedEx, are resident in Baku and should be used to ensure delivery of business and/or personal correspondence.

There is a functioning subway system in Baku, however, due to severe maintenance problems, the Embassy discourages American citizens from using it. Buses and streetcars are cheap and available, but are crowded and not recommended. Taxis are inexpensive, readily available and 10,000 AZM (USD2.20) will get you to most places around Baku. When taking taxis, only use those that have 'BLUE' license plates. Taxis do not have meters. Both Hertz and Avis offer rental vehicles with or without driver. If you are considering bringing a vehicle with you from overseas, a 4X4 is recommended given the poor road conditions throughout the country.

There are numerous shops in Baku where food, clothing, and small appliances are available. Imported electronics are readily obtainable. With the closing of the Ramstore due to fire in Summer 2001, there are no large, American-style supermarkets now operating in Baku. However, several smaller stores including Citimart, the New World Center, and 2000 offer a wide range of consumables. The local fruit and vegetable markets offer a bewildering array of delicious produce, and it is recommended to wash all produce thoroughly before consuming. Sanitary conditions for fresh meat, poultry and fish are far below Western standards and it is recommended to purchase such items in established stores with reliable packing and refrigeration. Drinking tap water is not recommended. Bottled water is generally available on the local market. Beer, soft drinks and hard alcohol are widely sold.

The health care system in Azerbaijan is far below Western-standards, underfunded, and often unable to provide even basic medical care common in the U.S. American businesspeople should ensure that all immunizations and vaccinations are up to date before arriving in Azerbaijan. A handful of clinics offer Western-standard medical care, including International SOS, the Turkish-American Medical Clinic, and MediClub. Major medical emergencies generally require a medical evacuation to a European destination. All U.S. travelers should ensure that they have up-to-date medical evacuation insurance to cover potential evacuation costs that can exceed \$70,000 for transportation alone.

Western-standard housing is generally available but can be expensive by U.S. standards. A basic, two bedroom flat with little renovation can be rented for as little as \$500 per month. High-end, Western-standard apartments with washer/dryer, dishwasher, security, parking, and other amenities can run as high as \$5,000 per month. It is recommended that residential housing have basic security features such as a steel door, a peephole, and adequate lighting in entryways and hallways. There are several real estate agencies that will provide search services, usually for a commission based on one-year's rent.

Electric voltage in Azerbaijan is 220v, 60 cycles. European standard round, two-prong plugs and electric connectors are used.



CHAPTER10: ECONOMIC AND TRADE STATISTICS

Appendix A: Country Data

Population	8.081 million *
Population growth rate	0.8% *
Religion	68% Shia 28% Sunni 3% Orthodox Christian 1% Jewish
Government System	Republic
Languages	Azerbaijani and Russian
Work Week	Monday-Friday, 40 hours

* State Statistics Committee 2000 figures

Appendix B: Domestic Economy

(All figures are estimates in millions of U.S. dollars based on data from the State Statistics Committee, National Bank of Azerbaijan, Ministry of Finance, and the GOAJ's May 2001 Interim Poverty Reduction Strategy Paper (IPRSP), unless otherwise noted. NB: Statistics can vary significantly among various government institutions.)

	<u>1999</u>	<u>2000</u>	<u>2001</u>
GDP (current prices)	4,596	5,267	5,715
GDP growth rate (%)	7.2	11.1	8.5
GDP per capita (\$)	584	618	681 **
Gov spending as % of GDP	17.1	16	17.7
Inflation (%)	-8.5	1.8	2.4
Unemployment (%)	1.20	1.17	1.3 ***
Foreign exchange reserves	677	680	680
Average ex rate for USD	4373	4565	4650
US Military/Economic assistance(USAID)****	25	31.7	35.5

** \$618 is the per capita GDP reported by the State Statistics Committee and used extensively by other economic organizations. The May 2001 IPRSP reports per capita GDP of \$664.

*** This figure is the reported number of persons officially registered unemployed. International organizations generally report that unemployment is believed to be at least 10 to 20 percent, or more. Underemployment is significantly higher.

**** Due to Section 907 restrictions, the majority of U.S. economic assistance is provided through the private sector and U.S. private voluntary organizations (PVOs). The USAID program is now supporting agricultural production and marketing, small and medium size business development, and economic opportunity activities for internally displaced persons.

Appendix C: Trade (in millions of USD)

	<u>1999</u>	<u>2000</u>	<u>2001</u>
Total Country Exports FOB*	928	1,745	1853.2
Total Country Imports*	1,033	1,172	1,434.5
U.S. Exports**	54.8	209.6	33.1
U.S. Imports**	26.3	20.9	16.5

* Total Country figures are based on State Statistics Committee data

** U.S. data from U.S. Census Bureau, Foreign Trade Division. Data is from January-July 2001.

(Note: Significant discrepancies exist between State Statistics Committee data on U.S. exports to and imports from Azerbaijan in 2000 (Exports: \$104.1 million vs. U.S. source data of \$209.6 million; Imports: \$8 million vs. U.S. source data of \$20.9 million.)

CHAPTER 11: U.S. AND AZERBAIJANI CONTACTS

Embassy of the United States of America
83 Azadliq Prospekt
Baku, 370007, Azerbaijan
Embassy Tel: (994-12) 98-03-35/6/7;
Embassy Fax: (994-12) 90-66-71
U.S. Embassy Commercial Service Fax: (994-12) 98-61-17
Web: www.usembassybaku.org
U.S. Commercial Service E-mail: Baku.Office.Box@mail.doc.gov
Contacts: Ross Wilson, U.S. Ambassador to Azerbaijan
Nancy McEldowney, Deputy Chief of Mission
Michael Lally, Senior Commercial Officer
William D. McKinney, USAID Country Coordinator
Debra Juncker, Economic Officer
James Seward, Public Affairs Officer
Inger Tangborn, Consular Officer
Joe Hooten, Regional Security Officer
Seymour Khalilov, BISNIS Commercial Assistant

U.S. Mailing Address:
U.S. Commercial Service
7050 Baku Place
Washington DC 20521-7050

AMERICAN CHAMBER/BILATERAL BUSINESS COUNCILS

American Chamber Of Commerce in Azerbaijan
The Landmark Building, 2nd floor
Nizami Street, 96
Baku 370016 Azerbaijan
Tel: (994-12) 97-13-33
Fax: (994-12) 97-10-91
Web: www.amchamaz.org
Email: info@amchamaz.org
Contacts: Kenny Hawsey, President
Jonelle Glosch, Executive Director

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Baku, Azerbaijan
E-mail: Baku.Office.Box@mail.doc.gov
www.export.gov*

United States-Azerbaijan Chamber of Commerce (USACC)
1212 Potomac Street, NW,
Washington, DC 20007
Tel: (202) 333-8702
Fax: (202) 333-8703
Web: www.usacc.org
Email: chamber@usacc.org
Contact: Mr. Galib Mammad, Executive Director

TRADE AND INDUSTRY ASSOCIATIONS IN AZERBAIJAN

Chamber Of Commerce and Industry of Azerbaijan
31/33 Istiglaliyat Street,
Baku - 370000
Tel: (994-12) 92-89-12
Fax: (994-12) 98-93-24
Web: N/A
E-mail: N/A
Contacts: Suleyman Tatliyev, President
Rauf Vezirov, Vice President

Azerbaijan Confederation of Entrepreneurs (Employers)
85 Salatin Askerova Street
Tel: (994-12) 94-99-76; 92-07-05;
Fax: (994-12) 94-99-76
Web: www.ASK.org.az
E-mail: azerenterprise@artel.net.az
Contact: Dr. Alekper Mammadov, President

AZERBAIJANI GOVERNMENT OFFICES AND KEY STATE ENTERPRISES

Note: If dialing from overseas, please use the (994-12) dialing protocol for all Baku numbers

Ministry of Agriculture and Food Supplies
Government House, 3rd floor
Azadlyg Meydani,
Baku - 370016
Tel: (994-12) 93-08-84, 93-37-45
Fax: (994-12) 94-53-90
Teletype: 142216 Dask Su
Web: N/A
E-mail: N/A
Contact: Irshad Aliyev, Minister

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Baku, Azerbaijan
E-mail: Baku.Office.Box@mail.doc.gov
www.export.gov*

Tofik Zeynalov, Foreign Relations Department.

Ministry of Communications
33 Azerbaijan Avenue,
Baku - 370139
Tel: (994-12) 93-00-04, 93-43-27
Fax: (994-12) 98-42-85
Telex: 142492 Sahil Su
Web: www.azerin.com/members/rabite/
E-mail: N/A
Contact: Nadir Ahmedov, Minister
Guismat Ibragimov, Foreign Relations Department.

Ministry of Finance
83 Samad Vurgun Street,
Baku - 370022
Tel: (994-12) 93-30-12, 93-05-62
Fax: (994-12) 98-79-69
Web: N/A
E-mail: N/A
Contact: Avaz Alakbarov, Minister
Mardan Mardanov, Foreign Relations Department

Ministry of Economic Development
20, Yusif Safarov Street
Baku - 370000
Tel: (994-12) 90-24-30
Fax: (994-12) 90-24-04
Web: N/A
E-mail: N/A
Contact: Farhad Aliyev, Minister
Mekhman Abbasov, Foreign Relations Department.

Ministry of Fuel and Energy
88 Gasabek Zardabi Street
Baku - 370000
Tel: (994-12) 31-80-12
Fax: (994-12) 31-90-05
Web: N/A
E-mail: N/A
Contact: Macid Kerimov, Minister

Ministry of Justice
1 Inshaatchiar Avenue,
Baku - 370000
Tel: (994-12) 30-01-16; 30-09-77

Fax: (994-12) 30-09-81
Web: N/A
E-mail: N/A
Contact: Fikret Mamedov, Minister
Zafar Gafarov, Foreign Relations Department.

Ministry of Ecology and Mineral Resources
100a Agayev Street,
Baku - 370073
Tel: (994-12) 38-54-54; 38-04-81
Fax: (994-12) 39-84-32, 38-15-21
Telex: 142287 Sipiz Su
Web: N/A
E-mail: N/A
Contact: Husein Bagirov, Minister

State Statistics Committee
24 Inshaatchilar Avenue,
Baku - 370136
Tel: (994-12) 38-11-71;
Fax: (994-12) 38-05-77
Web: www.statcom.baku-az.com
E-mail: N/A
Contact: Arif Veliyev, Chairman

State Committee for the Production of
Special Machinery and Conversion
(Responsible for conversion of military products manufacturing plants)
40 Matbuat Avenue,
Baku - 370141
Tel: (994-12) 39-40-30; 39-23-07;
Fax: (994-12) 39-24-53
Web: N/A
E-mail: N/A
Contact: Sabir Alekperov, Acting Chairman

State Customs Committee
2 Inshaatchilar Avenue,
Baku - 370073
Tel: (994-12) 38-80-80
Fax: (994-12) 93-40-68
Web: www.az-customs.net/
E-mail: N/A
Contact: Kamaladdin Heydarov, Chairman

State Oil Company of Azerbaijan Republic

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Baku, Azerbaijan
E-mail: Baku.Office.Box@mail.doc.gov
www.export.gov*

(SOCAR)
73 Neftchiler Avenue,
Baku - 370601
Tel: (994-12) 92-06-85; 92-23-12
Fax: (994-12) 92-32-04; 93-64-92
Web: www.socar-cc.com
E-mail: N/A
Contact: Natik Aliyev, President
Valekh Aleskerov, General Manager, Foreign Investment
Department

Azerigaz State Company
23 Yusif Safarov Street,
Baku - 370025
Tel: (994-12) 67-74-47;
Fax: (994-12) 65-12-01
Web: N/A
E-mail: N/A
Contact: Alihan Melikov, Chairman

Azerikimya State Company
(Petrochemicals, plastics)
16, Nizami Street,
Sumgait - 373200
Tel: (99 264) 2-04-47
Fax: (99 264) 5-98-17
Web: N/A
E-mail: N/A
Contact: Fikrat Sadikhov, President

Azerenergy State Company
A. Alizade Street 10,
Baku - 370601
Tel: (994-12) 93-73-58; 93-72-57
Fax: (994-12) 98-55-23
Web: N/A
E-mail: N/A
Contact: Imran Hasanov, Acting President

Azerbaijan Airlines State Concern (AZAL)
11 Azadlyg Avenue,
Baku - 370000
Tel: (994-12) 93-44-34; 98-44-07
Fax: (994-12) 98-52-37
Web: N/A
E-mail: N/A

Contact: Jahangir Askerov, General Director

Caspian Shipping Company
M.A. Rasulzade Street 5,
Baku - 370601
Tel: (994-12) 93-20-58; 93-51-81
Web: N/A
E-mail: N/A
Contact: Aydin Bashirov, Chief

Baku Sea Port
U. Hajibeyov Street 72,
Baku - 370010
Tel: (994-12) 93-67-74, 93-40-97
Fax: (994-12) 93-36-72
Web: N/A
E-mail: N/A
Contact: Aydin Mamedov, Chief

National Bank of Azerbaijan
33, Rashid Behbudov Street,
Baku - 370070
Tel: (994-12) 98-37-73; 935058; 980363
Fax: (994-12) 93-31-06
Web: N/A
E-mail: N/A
Contact: Elman Rustamov, Chairman of the Board

Ministry of Tax
Landau Street 16,
Baku
Tel: (994-12) 30-16-56
Fax: (994-12) 98-54-07
Web: www.taxes.gov.az
www.az-taxinspectorate.net/
E-mail: N/A
Contact: Fazil Mamedov, Minister

Baku State Tax Inspection Board
62 Neftchilar Ave.
Baku - 370601
Tel: (994-12) 95-68-58; 95-68-84
Web: N/A
E-mail: N/A
Contact: Zabit Ahmedov, Chief

Selected Market Research Firms in Azerbaijan

SIAR Baku
Social and Marketing Research Center.
Ul/ Vagif 103a/3
370007 - Azerbaijan
Tel: (994-12) 972934
Fax: (994-12) 942934
Web: www.siar.com.az
E-mail: siar@azeri.com
Contact: Rahim Husseinov, General Manager

Eagle Trading & Marketing
3 Yusifbek Ibragimli Street
Baku – 370010
Tel: (994-12) 920108
Fax: (994-12) 920118
Web: N/A
E-mail: cihangir@artel.net.az
Contact: Jahangir Ozagcha, General Manager

Selected Commercial Banks in Azerbaijan

International Bank of Azerbaijan
67, Nizami Street,
Baku - 370010
Tel: (994-12) 93-03-07; 93-41-59
Fax: (994-12) 93-40-91
Web: www.ibar.az
E-mail: ibar@ibar.az
Contact: Jahangir Hajiyeve, Chairman of the Board

HSBC British Bank of the Middle East
96, Nizami Street, "Landmark" Business Center,
Baku
Tel: (994-12) 97-08-08
Fax: (994-12) 97-17-30
Web: www.hsbc.com
E-mail: hsbc@hsbc.baku.az
Contact: Charles Manson, Chief Executive Officer

Azdemiryolbank
31, Garabag Street,
Baku
Tel: (994-12) 98-22-04
Fax: (994-12) 98-09-33

Web: N/A
E-mail: N/A
Contact: N/A

Rabitabank
1 B. Sardarov Street,
Baku - 370001
Tel: (994-12) 92-60-97; 92-61-48
Fax: (994-12) 97-11-01
Web: N/A
E-mail: N/A
Contact: Eldar Agayev, Deputy of Chairman

Azerigazbank
16, Landau Street
Baku – 370073
Tel: (994-12) 97-50-17/18, 97-52-71
Fax: (994-12) 98-96-15
Web: http://intrans.baku.az/bicex/agb/agb_ind.htm
E-mail: agbbank@azeri.com
Contact: Azer Mekhsumov, Chairman of the Board

Promtechbank
69 Fizuli Street,
Baku 370014
Tel: (994-12) 95-78-74
Fax: (994-12) 95-83-60
Web: www.ptbank.com
E-mail: bank@devi.baku.az
Contact: Faig Huseynov, Chairman of the Board

Mbank
172, Tolstoy Street,
Baku 370000
Tel: (994-12) 98-22-44/5
Fax: (994-12) 98-09-53
Web: N/A
E-mail: Garibov@Garibov-Eldar.baku.az
Contact: Eldar Garibov, Chairman of the Board

KocBank
15 Rashid Beibutov Street,
Baku 370014
Tel: (994-12) 97-77-95
Fax: (994-12) 97-02-76
Web: www.kocbank.com.az

E-mail: kocbank@azeronline.com

Contact: Yalcin Eliguzeloglu, Manager, Corporate Finance

BayBank

14, Samed Vurgun Street,

Baku 370000

Tel: (994-12) 93-50-07; 98-18-40

Fax: (994-12) 98-57-76

Web: N/A

E-mail: baybank@artel.net.az

Contact: Serdar Erzurumlu, President & CEO

Mostbank

4, Husi Hajiyevev Street

Baku - 370005

Tel: (994-12) 97-10-71,

Fax: (994-12) 98-07-78, 97-20-94

Web: www.mostbank.top.az

E-mail: mostbank@azeuro.net

Contact: Assim Mamedly, Chairman of the Board

**MULTILATERAL DEVELOPMENT BANKS AND TRADE AND
PROJECT FINANCE CONTACTS IN AZERBAIJAN**

Caspian Finance Center

(Staffed by representatives of the Overseas Private Investment Corporation, U.S.
Exim Bank, and the U.S. Trade and Development Agency)

110 Ataturk Bulvari,

06100 Ankara, Turkey

Tel: (994-12) 90-312-466-6081

Voicemail: (994-12) 90-312-468-6110/2075

Fax: (994-12) 90-312-466-6082

Web: www.caspianfinance.com

E-mail: info@tda.gov

Contact: Peter Ballinger, OPIC Director

European Bank of Reconstruction and Development (EBRD)

5 Sabir St., Ichari Shahr

Baku, 370004

Tel: (994-12) 97-10-14

Fax: (994-12) 97-10-19

Web: www.ebrd.com

E-mail: N/A

Contact: Thomas Moser, Head of Office

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Baku, Azerbaijan

E-mail: Baku.Office.Box@mail.doc.gov

www.export.gov

For consultations and development of U.S.-sponsored projects with the EBRD, please also contact:

European Bank for Reconstruction and Development (EBRD)
One Exchange Square
London EC2A 2JN, United Kingdom
Tel: +44 20 7338 6000
Fax: +44 20 7338 6100
Web: www.ebrd.org
E-mail: Gene.Harris@mail.doc.gov
Contact: Gene Harris, U.S. Liaison to the EBRD

World Bank
91/95 Mirza Mansur St., Ichari Shahar,
Baku
Tel: (994-12) 92-19-41; 92-28-07
Fax: (994-12) 93-47-66; 92-14-79
Web: www.worldbank.com
E-mail: rzayev@worldbank.org
Contact: Akbar Noman, Resident Representative

For consultations and development of U.S.-sponsored projects with the World Bank, please also contact:

World Bank Liaison Office
1818 H St., NW
Washington, DC 20433
Tel: 202-473-6168
Fax: 202-522-2630
Telex: Rca 248423
Web: www.worldbank.org
Email: karen.zens@mail.doc.gov
Contact: Karen Zens, U.S. Liaison to the World Bank

Asian Development Bank (ADB)
Address: N/A
Tel: (994-50) 221-72-28
Fax: N/A
Web: www.adb.org
E-mail: fhuseynbeyov@iatp.aznet.org
Contact: Faradj Huseynbeyov, Representative

As of August 2001, the ADB does not have a full-time office in Azerbaijan.

For consultations and development of U.S.-sponsored projects with the ADB, please also contact:

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Asian Development Bank (ADB)
6 ADB Avenue
0401 Mandaluyong City
Philippines
Tel: (632) 632-4444
Fax: (632) 636-2444
Web: www.adb.org
E-mail: Stewart.Ballard@mail.doc.gov
Contact: Stewart Ballard, U.S. Liaison to the ADB

International Monetary Fund (IMF)
83, Samed Vurgun St.,
Baku - 370022
Tel: (994-12) 97-01-88/9
Fax: (994-12) 97-01-87
Web: www.imf.org
E-mail: saida@imf.baku.az
Contact: Michael Mered, Resident Representative

International Finance Corporation
91/95 Mirza Mansur St., Ichari Shahar,
Baku
Tel: (994-12) 92-19-41
Fax: (994-12) 92-14-79
Web: www.ifc.com
E-mail: anuriyeva@ifc.org
Contact: Aliya Nuriyeva, Country Program Coordinator

Key Media and Advertising Contacts in Azerbaijan

Zerkalo - newspaper in Russian, content: politics, business and entertainment.
Address: 1, Sharifzadeh Str.
Tel: (994-12) 97 50 31
Fax: (994-12) 97 71 23
Web: www.zerkalo.az
E-mail: gazeta@zerkalo.az
Contact: Elchin Shikhlinsky, chief editor

Ayna – newspaper in Azeri, content: politics, business and entertainment.
Address: 1, Sharifzadeh Str.
Tel: (994-12) 32 00 08
Fax: (994-12) 97 51 69
Web: www.ayna.az
E-mail: secret@azeri.com
Contact: Elchin Shikhlinsky, chief editor

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www.export.gov*

Echo – newspaper in Russian, content: politics, business and entertainment.

Address: 1, Sharifzadeh Str

Tel: (994-12) 47 41 50

Fax: (994-12) 47 41 50

Web: www.echo-az.com

E-mail: gazeta@echo-az.com

Contact: Rauf Talyshinsky, chief editor

Caspian Business News – newspaper in English, content: politics, business and entertainment.

Address: 18, Almaz Ildyrym Str.

Tel: (994-12) 97 07 43

Fax: (994-12) 92 21 81

Web: www.caspianbusinessnews.com

E-mail: editor@caspianbusinessnews.com

Contact: Sagan Askerov, chief editor

The Azeri Times – newspaper in English, content: politics, business and entertainment.

Address: 31, Istiglaliyat Str.

Tel: (994-12) 47 42 86

Fax: (994-12) 47 42 88

Web: N/A

E-mail: azer@bak.net.az

Contact: Aida Sultanova, chief editor

Baku Sun – newspaper in English, content: politics, business, and entertainment.

Address: Apt. 21, A, Block 559, Firuddin Agayev Str.

Tel: (994-12) 97 55 31

Fax: (994-12) 97 55 31

Web: www.bakusun.az

E-mail: editor@bakusun.baku.az

Contact: Tim Wall, chief editor

Yeni Musavat – newspaper in Azeri, content: politics, business and entertainment.

Address: Prospect Azerbaijan 37, 370000

Tel: (994-12) 98 20 88

Fax: (994-12) 98 00 61

E-mail: mail@yenimusavat.com

Contact: Rauf Arifoglu, chief editor

"Media" Information Broadcasting Company – Private Press Agency, TV and Radio stations (Lider TV and FM) and newspapers in Azeri (Bizim Esr), English (Our Century) and Russian (Nash Vek).

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Address: 83/23, Alesker Alekperov Street
Tel: (994-12)97 88 99
Fax: (994-12)97 88 98
Web: www.media-az.com
E-mail: vafa@media-az.com
Contact: Vugar Garadagly, General Director

Consulting and Business Magazine – magazine in English and Azeri
Address: 13/15 Bolshaya Krepostnaya
Tel: (994-12) 92 08 20
Fax: (994-12) 97 37 70
Web: www.consulting.azeri.com
E-mail: minimax@azeri.com
Contact: Ilgar Bagarov, chief editor

Caspian Energy – magazine in English
Address: Apt.4, 74, Zargar Palan Str.
Tel: (994-12) 94 16 05; 95 38 59
Fax: (994-12) 94 16 05
Web: www.caspenergy.com
E-mail: argcaspenergy@azdata.net
Contact: Natalya Aliyeva, chief editor

ANS - Azerbaijan News Service – Private Information Agency, TV and Radio stations (ANS TV and ANS ChM FM).
Address: Drive 1128, Block 504
Tel: (994-12) 97 72 70
Fax: (994-12) 98 94 98
Web: www.ans-dx.com
E-mail: ans@ans-dx.com
Contact: Mais Mamedov, General Director

Space – Television & Radio Broadcasting Company
Address: 31/33 Istiglaliyat Str.
Tel: (994-12) 92 76 96
Fax: (994-12) 92 76 65
Web: N/A
E-mail: spacenews@azeri.com
Contact: Eytibar Babayev, President

For further information concerning media groups in Azerbaijan, contact:
Information Specialist
U.S. Embassy, Baku
Tel: (994-12) 98 03 35/6/7
Fax: (994-12) 98 93 12
Web: www.usia.gov/posts/baku.html

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E-mail: smirzoyeva@pd.state.gov

Contact: Sevinj Mirzoyeva, Information Specialist

Consulting Firms

Arthur Andersen

Hyatt International Center, 1st floor

Izmir 10/33 Street

Baku, Azerbaijan

Tel: (994-12) 97 80 00

Fax: (994-12) 97 80 01

Web: www.andersen.com

Contact: Peter Burnie, Country Manager

Ernst and Young

Hyatt Tower, E&Y Office

Baku, Azerbaijan

Tel: (994-12) 90 70 20

Fax: (994-12) 90 70 17

Web: www.eycis.com

E-mail: stephanie_inman@notes.eycis.com

Contact: Stephanie Inman, Managing Partner

KPMG

ISR Plaza, 9th floor

340 Nizami Street

Baku 370000, Azerbaijan

Tel: (994-12) 97 19 05/06/07

Tel/fax: (994-12) 97 19 09

Web: www.kpmg.com

E-mail: Baku@kpmg.az

Contact: Bob Wollingford, General Manager

Price Waterhouse Coopers

The Landmark Building, 5th floor

96 Nizami Street

Baku, Azerbaijan

Tel: (994-12) 97 25 15

Fax: (994-12) 97 74 13

Web: www.pwcglobal.com

E-mail: kenny.hawsey@az.pwcglobal.com

Contact: Kenny Hawsey, Sr. Territory Partner

Central Asia Business Consultants

“Caspian Business Center”

40 Jafar Jabbarly Str., 8th floor

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Baku, Azerbaijan

E-mail: Baku.Office.Box@mail.doc.gov

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Tel: (994-12) 97 44 85/6
Fax: (994-12) 97 44 87
Web site: www.cabc.top.az
E-mail: 112401.665@compuserve.com
Contact: Adik Babayev, President

Caspian Steppes
4108 Greeley
Houston, TX, USA
Tel: 713-533-0632
Fax: N/A
Web: N/A
E-mail: cbrooksfrrazier@msn.com
Contact: Brooks Frazier

International Law Firms with Offices in Azerbaijan

Baker & McKenzie
The Landmark Building, 6th floor
96 Nizami Street
Baku, Azerbaijan
Tel: (994-12) 97 18 01, 98 24 80
Fax: (994-12) 97 18 05
Web: www.bakernet.com
E-mail: baku.info@bakernet.com
Contact: Daniel Matthews, Partner

Baker Botts LLP
6-10 Vagif Mustafa-zadeh St.,
3d floor, Icheri Sheher
Baku 370004, Azerbaijan
Tel: (994-12) 97 63 88
Fax: (994-12) 97 63 91
Web: www.bakerbotts.com
E-mail: christine.ferguson@bakerbotts.com
Contact: Christine Ferguson, Partner in Charge

Wicklow Group Ltd (Salans Hertzfeld and Heilbronn)
1033 Ismir Street, Hyatt International Center
Hyatt Tower 2, 1st floor
Baku 370065, Azerbaijan
Tel: (994-12) 90 75 65
Fax: (994-12) 97 10 57
Web: www.salans.com
E-mail: abati@wicklow.baku.az
Contact: Alum Bati, Managing Partner

Key U.S Government Contacts

U.S. Department of Commerce
Trade Information Center
US Trade Center
Washington, DC 20230
Tel: 1-800-USA-TRADE
Fax: 202-482-4473
Web: www.usatrade.gov
E-mail: N/A
Contact: N/A

Office of Market Access and Compliance
14th St. & Constitution Ave. NW
Washington, DC 20230
Tel: 202-482-2902
Fax: 202-482-2456
Webs: www.ita.doc.gov
E-mail: N/A
Contact: Matt London, Russia/NIS Program Officer
(for market access and regulatory issues)

Business Information Service for the Newly
Independent States (BISNIS)
1401 Constitution Avenue, NW
U.S. Department of Commerce
Ronald Reagan Building
USA Trade Center
Washington, DC 20230
Tel: 202-482-4655
Fax: 202-482-2293
Web: www.bisnis.doc.gov
E-mail: N/A
Contact: Kelly Raftery, International Trade Specialist

U.S. Department of State
Office of Business Affairs
2201 C Street, NW
Washington, DC 20520
Tel: 202-746-1625
Fax: 202-647-3953
Web: www.state.gov
E-mail: N/A
Contact: N/A

U.S. Department of Agriculture
Foreign Agriculture Service
Trade Assistance and Promotion Office
1400 Independence Avenue, SW
Washington, DC 20250-1052
Tel: 202-720-7420
Fax: 202-690-4374
Web: www.usda.gov
E-mail: N/A
Contact: Kwamena Cudjoe, Agricultural Economist

Overseas Private Investment Corporation (OPIC)
1100 New York Avenue, NW, Twelfth Floor
Washington, DC 20527

Finance Department, NIS Division
Tel: 202-336-8480; 202-336-8485
Fax: 202-408-9866; 202-408-9866

Insurance Department, NIS Division:
Tel: 202-836-8575; 202-336-8579
Fax: 202-408-5142; 202-408-5142

Investment Development Department:
Tel: 202-336-8621; 202-336-8491
Fax: 202-408-5145; 202-408-5145

Web: www.opic.gov
E-mail: N/A
Contact: James Gale, Business Development Officer

U.S. Trade and Development Agency (TDA)
1621 North Kent Street, Suite 200
Arlington, VA 22209
Tel: 703-875-4357
Fax: 703-875-4009
Web: www.tda.gov
E-mail: N/A
Contact: Daniel Stein, Regional Director

Export-Import Bank of the United States (Ex-Im Bank)
International Business Development
811 Vermont Avenue, NW
Washington, DC 20571
Tel: 202-565-3413
Fax: 202-565-3625

Website: www.exim.gov

E-mail: N/A

Contact: Paul Tumminia, Regional Manager - NIS

CHAPTER 12: MARKET RESEARCH

In FY 2002, the U.S. Embassy Commercial Service in Baku will prepare a series of International Market Insights (IMIs) focusing on business opportunities in: (1) agriculture (food processing, packaging, green-house manufacturing), (2) oil and energy related industries (oil industry infrastructure development, pipeline transportation), (3) medical equipment and pharmaceuticals, (4) construction materials, (5) security and safety equipment, (6) establishing and registering an office in Azerbaijan and (7) selling to the international oil consortia. More detailed Industry Sub-sector Analyses (ISAs) will be prepared on medical equipment, cellular telecommunications, and food processing, packaging and storage.

A complete list of market research is available on the U.S. Commercial Service's website: www.usatrade.gov, www.usembassybaku.org

Further information and market research is available on www.bisnis.doc.gov – the U.S. Government's award winning clearinghouse for information on doing business in the Newly Independent States.

For custom-tailored market research that responds to your U.S. firms' information needs, the U.S. Embassy Commercial Service in Baku offers flexible market research through the Platinum Key Service. A dedicated account representative specializing in your specific industry can provide ongoing market intelligence, conference call market briefings, and market research on an ongoing basis. This U.S. Commercial Service product, offered worldwide, is ideal for U.S. firms in the "monitoring stage" of market development and considering having some form of business presence in Azerbaijan. For more information on the Platinum Key Flexible Market Research Service, please E-mail Michael A. Lally, Senior Commercial Officer, at Baku.Office.Box@mail.doc.gov.

CHAPTER 13: TRADE EVENT SCHEDULE

A. Baku International Healthcare Exhibition (BIHE 2001)

*Prepared by the U.S. Embassy Commercial Service
Baku, Azerbaijan
E-mail: Baku.Office.Box@mail.doc.gov
www.export.gov*

Organizer: ITE Group PLC (United Kingdom)
Sectors: medical equipment, pharmaceuticals
Place: Baku Sports and Exhibitions Complex
Dates: September 19-20, 2001

B. The Fifth Annual Conference and Exhibition of the U.S. - Azerbaijan Chamber of Commerce

Organizer: U.S. - Azerbaijan Chamber of Commerce
Place: Renaissance Washington DC Hotel
Date: September 20-21, 2001 (to be confirmed)

C. Baku Build

Organizer: ITE Group PLC (United Kingdom)
Sectors: construction, architecture
Place: Baku Sports and Exhibitions Complex
Dates: September 26-28, 2001

D. Baku Telecommunications

Organizer: ITE Group PLC (United Kingdom)
Sectors: telecommunication and computers' technology
Place: Baku Sports and Exhibitions Complex
Dates: October 10-12, 2001

E. The 9th International Caspian Oil & Gas Exhibitions and Conference
(Incorporating Refining & Petrochemicals)

Organizer: Spearhead Exhibitions (United Kingdom)
Place: Baku Sports and Exhibitions Complex
Dates: June 4-7, 2002

This international event attracts industry exploration and production, international and local leaders in service companies and firms providing the following services:

- Pipelines and other industrial construction
- Development of oil & gas infrastructure
- Engineering, procurement and construction
- Hydrocarbon resources transportation
- Consulting, insurance, financial and legal services
- Logistics services
- Information technologies
- Personnel training for oil & gas industry
- Health and safety

The Caspian Oil & Gas Exhibition and Conference is traditionally supported by the Azeri government. The President of Azerbaijan officially opens this event. Energy Ministers from various countries or their official representatives also participate in the opening ceremony followed by a tour of the exhibition.

Please check the most updated information about this event on the website:

www.caspianevents.co.uk

The U.S. Embassy Commercial Service in Baku is also represented at this premier trade event through the Caspian Finance Seminar, a unique trade and project finance briefing provided by the Caspian Finance Center, U.S. Liaisons to the Multilateral Development Banks, and U.S. Embassies in the region. A USA Pavilion housing the American Chamber of Commerce in Azerbaijan, the U.S.-Azerbaijan Chamber of Commerce, and the U.S. Embassy Commercial Service in Baku provides a one-stop shop for U.S. and Azeri firms attending the show. For more information on the Caspian Finance Seminar, tentatively planned for June 2002, please contact Seymour Khalilov, Commercial Specialist (oil and gas portfolio) at Baku.Office.Box@mail.doc.gov.

Contact Information:

- A. Chamber of Commerce and Industry of Azerbaijan
31/33 Istiglaliyat Street
Baku 370001 Azerbaijan
Tel: (994-12) 92-82-59, 92-89-12
Fax: (994-12) 98-93-24
Web: N/A
E-mail: N/A
Contact: Ilham Guseynov, Chief of Trade Events and Exhibitions
Department
- B. U.S. – Azerbaijan Chamber of Commerce
1212 Potomac Street, N.W. Washington, D.C. 20007
Tel: (202) 333 8702
Fax: (202) 333 8703
Web: www.usacc.org
E-mail: chamber@usacc.
Contact: Galib Mammad, Executive Director
- C. Spearhead Exhibitions LTD
48 Nizami Street, Apt. 46
Baku 370000 Azerbaijan
Tel: (994-12) 93-00-30
Fax: (994-12) 93-89-06
Web: www.caspianevents.co.uk
E-mail: spsearch@azeurotel.com
Contact: Fidan Ordukhanova, Head of Representative office
- Spearhead Exhibitions LTD
Coombe Hill House, Beverley Way
London sw20 oar, UK

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Tel: +44 (0) 20 8949 9222
Fax: +44 (0) 20 8949 8186/8193
Web: www.caspianevents.co.uk
E-mail: caspian@spearhead.co.uk
Contact: Suzanne Morris, Conference Manager

D. Iteca Caspian LTD
81, Azadlig Prospect
Baku 370007 Azerbaijan
Tel: (994-12) 47-47-74
Fax: (994-12) 47-89-98
Web: www.iteca.az
E-mail: office@iteca.baku.az
Contact: Farid Mammadov, Executive Director

ITE Group PLC
105 Salusbury Road – London nw6 6rg UK
Tel: +44 (0) 20 7596 5000
Fax: +44 (0) 20 7596 5111
Web: www.ite-exhibitions.com
E-mail: enquire@ite-exhibitions.com
Contact: N/A

CHAPTER 14: OIL & GAS CONSORTIA

- 1) AIOC (Azerbaijan International Operating Company)
Date signed: September 20, 1994
Type: Offshore
Shareholders: BP 34.1); Statoil (8.56);
Itochu (3.92); ExxonMobil (8.0); Unocal (10.04);
TPAO (6.75); Delta/Amerada Hess (3.76); Lukoil (10.0); Devon Energy (4.81);
SOCAR (10.0).
- 2) Shakh-Deniz
Date signed: June 4, 1996
Type: Offshore
Shareholders: BP (25.5); Lukoil (10.0); TPAO (9.0); Statoil (25.5); Elf (10.0);
SOCAR (10.0); OIEC (10.0).
- 3) Lenkoran-Talysh Deniz
Date signed: January 13, 1997
Type: Offshore
Shareholders: Elf (40.0); OIEC (10.0); Petrofina (5.0);
Total (10.0); Wintershall (10.0); SOCAR (25.0)
- 4) Apsheron

*Prepared by the U.S. Embassy Commercial Service
Baku, Azerbaijan
E-mail: Baku.Office.Box@mail.doc.gov
www.export.gov*

Date signed: August 1, 1997
Type: Offshore
Shareholders: Chevron (30.0); SOCAR (50.0); Total (20.0).

- 5) Nakhchivan
Date signed: August 1, 1997
Type: Offshore
Shareholders: ExxonMobil (50.0) SOCAR (50.0)
- 6) Yalama
Date signed: July 4, 1997
Type: Offshore
Shareholders: LUKARCO: LUKoil (32.4), ARCO (27.6);
SOCAR (40.0)
- 7) Oguz
Date signed: August 1, 1997
Type: Offshore
Shareholders: ExxonMobil (50.0) SOCAR (50.0)
- 8) Kurdashi
Date signed: August 1, 1997
Type: Offshore
Shareholders: SOCAR (50.0); Agip (25.0); Mitsui (15.0);
TPAO (5.0); Repsol (5.0)
- 9) Gobustan
Date signed: June 2, 1998
Type: Onshore
Shareholders: Commonwealth Oil and Gas (80.0);
SOCAR (20.0)
- 10) Kursangi and Garabagly
Date signed: June 2, 1998
Type: Onshore
Shareholders: Frontera Resources (30.0);
Delta Oil/Amerada Hess (20.0); SOCAR (50.0).
- 11) Muradkhanli, Jafarli, and Zardab
Date signed: July 22, 1998
Type: Onshore
Shareholders: Ramco (50.0); SOCAR (50.0).
- 12) Inam
Date signed: July 22, 1998
Type: Offshore

Shareholders: BP (25.0); SOCAR (50.0);
Shell (25.0)

- 13) Araz, Alov, and Sharq
Date signed: July 22, 1998
Type: Offshore
Shareholders: BP (15.0); ExxonMobil (15.0); Alberta Energy (5.0); Statoil (15.0); TPAO (10.0); SOCAR (40.0).
- 14) Ateshgah, Yanan Tava, and Mugan Deniz
Date signed: December 25, 1998
Type: Offshore
Shareholders: JAPEX (22.5); Teikoku (7.5); INPEX (12.5); ITOCHU (7.5); SOCAR (50.0)
- 15) Zafar, Mashal
Date signed: April 27, 1999
Type: Offshore
Shareholders: ExxonMobil (20.0); SOCAR (50.0); Conoco (20.0)
- 16) Lerik
Date signed: April 27, 1999
Type: Offshore
Shareholders: ExxonMobil (20.0); SOCAR (50.0); with 20.0% to be decided
- 17) Padar
Date signed: April 27, 1999
Type: Onshore
Shareholders: Moncrief Oil International, Inc. (80.0); SOCAR (20.0)
- 18) Mishovdag-Kalameddin
Date signed:
Type: Onshore
Shareholders: Moncrief Oil International, Inc. 50%; 35% Petoil; SOCAR 15%
- 19) Hovsan-Zykh
Date signed: (new PSA) June 12, 2001
Type: Onshore
Shareholders: LUKoil 50%; SOCAR 50%

NOTE: Two consortia, CIPCO and NAOC, were dissolved in 1998-9 because of disappointing results in test wells. One hundred percent of the West Apsheron (Karadag) PSA was reverted back to SOCAR in January 2000.